

Please
handle this volume
with care.

The University of Connecticut
Libraries, Storrs

hbl, stx


HG 1707.C63 1956

How to audit a bank.



3 9153 00495149 9

HQ/1707/C63/1956



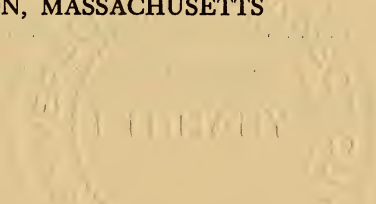
Digitized by the Internet Archive
in 2012 with funding from
LYRASIS members and Sloan Foundation

HE
1347
063
1956

How to Audit a Bank

By MARSHALL C. CORNS

1956
BANKERS PUBLISHING COMPANY
89 BEACH STREET
BOSTON, MASSACHUSETTS



332.1
C 816
Copyright, 1955, by

BANKERS PUBLISHING COMPANY

All rights reserved. This book or parts thereof, may not be reproduced in any form without permission of the publishers.

Library of Congress Catalogue Number: 54-12686

Printed in the United States of America by
Nimrod Press, So. Boston, Mass.

Dedication

To God in thanksgiving and appreciation for His many gifts—to Mary His Mother for Her many blessings and to St. Anthony, my patron saint, for his guidance and help—

To Helen my wife and companion for her cooperation and inspiration; and confidence and love mutually shared through the years—

To Carmen Luisa Rodriguez, my secretary for her unselfish help and patience of which I possess little—

To Gerard J. Bichl, Darrell S. Boyd, George R. Boyles, Paul J. Drexler, Charles C. Haffner, Jr., Franklin H. Keller, James L. Nau, Julius T. Seng, and Oscar H. Swan, for their inspiration, constructive criticism, and counsel over the years in a manner only I can appreciate—and

To many other friends and associates for their encouragement—without all of which, this book, herewith dedicated to the honesty and integrity of the many honorable persons who have, and will choose the banking business as a career and a profession, would not have been written.

December 1954

MARSHALL C. CORNS

Preface

THE number of bank embezzlements and defalcations which have come to light in the last few years have created a consciousness on the part of the supervising authorities and bank directors of the quality and degree of protective management in banks, and the grave responsibility directors have to their stockholders, bank employees, depositors and residents of their community.

Embezzlers and crooks are not new. One of the first accounts concerning the falsification of records is related in the Gospel of St. Luke, Chapter 16. This story is about the unjust steward who was about to be dismissed. In order to ingratiate himself, he did favors for a number of the creditors of his employer by calling them in and reducing the amount of their bills. If stealing was not a prominent failure of human nature, the admonition "Thou shall not steal" would not be included as one of the Ten Commandments.

Many recommendations and suggestions have been made in years past in connection with establishing audit controls, accounting procedures, and protective routines which would prevent a person from embezzling or stealing from his or her employer. Unfortunately, in too many banks, such routines and controls have been established only *after* a crime has been committed. The chances are that the same type of embezzlement would not occur again in many, many years, perhaps not during the lifetime cycle of the present staff, yet such controls and routines continue year after year with their accompanying unnecessary cost of operation.

The National Association of Bank Auditors and Comptrollers; the National Association of State Bank Supervisors, and the various federal and state bank supervising authorities are to be commended for their many contributions to better auditing procedures and their numerous recommenda-

tions to bank management for adequate controls so as to prevent crime from occurring.

The attainment of the objective of the National Association of Bank Auditors and Comptrollers to have an Audit Program in every bank is a *must*, if banking, as we know it, is to continue to enjoy the confidence of the public. Their efforts, unfortunately, in many instances, are falling short of their objectives because those who need to heed the admonitions of this group are not exposed to the objectives of this group.

Bulletins and pamphlets put out by the National Association of Bank Auditors and Comptrollers and by various state and federal supervising authorities are generally directed to bank personnel, whereas they should be directed to the attention of the directors.

Meetings held by the various associations and groups are attended by the officers and employees of member banks, whereas they should be attended also by the directors of member banks.

On the other hand, it could be argued that the reason some of the objectives of the various associations are not being attained is because of the change in viewpoint and attitude on the part of those members who advance in business and attain greater positions of responsibility. Viewpoints change. We change if we progress and our viewpoints change with each new objective. The viewpoint of a man when he is Cashier is not the same as it was when he was an Auditor; nor as Auditor is it the same as it was when he was a clerk or teller.

Directors and officers of associations who are charged with the responsibility of establishing policies and practices of any association should, in their day by day pursuit of their business careers, actively be engaged in, and practice, their profession. This is true of the members of the American Institute of Accountants, most of whose members are active in the day by day problems of the accounting profession. The same is true of medicine, dentistry, engineering and other similar fields. In banking associations, however, it is different. Here we find many men who, at the time of be-

coming a member of an association, were actively engaged in a particular phase of the business and in following and working with the matters which were associated with the objectives of the association. However, because of advancements or promotions, they are removed from the day by day contact with the objectives, with the result that their viewpoint changes and they look for the answer or solution to the problem through the eyes of an administrator rather than through the eyes of one having active contact or day by day workings with the particular problems.

Strange as it seems, we generally do not catch crooks. We become suspicious first of the way in which a transaction is being handled. We think that something is wrong. We analyze it until we pin something down to a certain place or to certain people. In the majority of cases, a person who is being observed or investigated, becomes jittery and makes a mistake, which, when followed up, exposes the embezzlement or defalcation.

The other way of discovering an embezzlement is to blunder into it. To spot confirm accounts and hit the name of a customer whose account is being manipulated, is luck. To send verification letters on loans and find that through an oversight or carelessness the address has not been taken care of, or a fictitious name used, which results in the confirmation letter being returned, whereby we find the note to be phoney, is luck.

There are hundreds of ways in which funds can be embezzled from a bank. It is unwise, we believe, to describe even some of the ways in which embezzlements can take place. I have always refrained from discussing or writing about the detail of such matters for fear of either supplying a would-be-embezzler with the very tool he needs to pull a job or help him continue his speculations.

Having examined banks for many years and collaborated closely with the federal and state supervising authorities, it is my belief that the best answer to the reduction of embezzlements and thefts in banks is through the establishing of procedures which will *prevent* embezzlements from occurring in the first place. These routines or internal controls,

which act to deter or prevent embezzlements, can be classified as preventative accounting procedures.

The objectives of preventive accounting procedures are to protect:

1. Weak people from temptation.
2. Strong people from opportunity.
3. Innocent people from suspicion.

It is the belief of the author that the objectives of preventive accounting can be attained only if those charged with the management responsibility of banks and the protection and welfare of bank personnel, establish and place into operation internal controls, audit routines, and procedures, tailor made to fit the operating conditions and exposures of their own individual bank. It is for this reason that the following material, so important to the principles of internal audit control, is set up on a broad base in a manual and textbook form.

The theory and practice of auditing procedures as applied to the banking field, found its inception in the accounting practices of the Scotch and English firms of registered accountants at the turn of the century.

The first practical and manualized approach to an audit program applicable to banks was born in the United States in the late twenties and early thirties as an answer to the common need for devising a set of standards or procedures which would be recognized by all, in not only evaluating the assets and recognizing the liabilities of a bank, but in adopting certain standard procedures which would give effective control to such assets and liabilities.

It was not, however, until the early part of 1933 that the first important effort to develop an audit program, applicable to the majority of banks was undertaken through a series of discussions held by the Chicago Bank Auditors Conference.

As a result of these conferences, held for the purpose of discussing auditing methods and procedures to cover all accounts appearing on a bank's statement, a committee of the Chicago Bank Auditors Conference, composed of: P. J.

Drexler, Auditor, City National Bank & Trust Co. of Chicago; M. C. Burkhart, Auditor, Harris Trust and Savings Bank, Chicago; E. E. Dobbeck, Auditor, Uptown State Bank, Chicago; A. C. T. Koenig, Auditor, Terminal National Bank, Chicago; and L. E. Solem, Comptroller, State Bank and Trust Co., Evanston, under the able leadership of Paul J. Drexler, then Auditor of the City National Bank and Trust Co. of Chicago, set up the first practical auditing procedure under the title "How to Plan and Execute a Bank's Audit Program."

Many of these men, who made such valuable contributions to bank auditing and laid the foundation for developing the objectives of the National Association of Bank Auditors and Comptrollers, are no longer connected with auditing functions. It is, however, to Mr. Drexler and his Chicago Conference Committee that credit should be given for laying the foundation upon which all present day auditing programs have been developed.

It is the hope of the author that this manual, which contains an outline of the responsibilities of directors, and the functions and procedures which can be followed by the Directors Examining Committee or the bank's own Auditor in setting up internal controls and operating a comprehensive audit program, will not only contribute to better auditing standards, but also be of help in guiding public accountants and others engaged in auditing work for banks, in conducting audits and periodical examinations in behalf of directors and stockholders.

Table of Contents

CHAPTER		PAGE
I	Introduction	1
II	Responsibilities of Directors	11
III	Bank Examinations and Audits	25
IV	Prelude to the Audit Program	42
V	Terminology used in Bank Auditing Procedures and Charting of Accounts	64
VI	The Audit Program	72
VII	Audit of Cash and Due From Banks Account	74
VIII	Audit of Loan and Discount Accounts	82
IX	Audit of Bonds and Investments Accounts	94
X	Audit of Properties Account	100
XI	Audit of Income Earned But Not Collected Account	105
XII	Audit of Current Expenses From Operations Account	109
XIII	Audit of Charges or Losses Accounts	118
XIV	Audit of Other Resources Accounts	121
XV	Audit of Public Fund Demand Deposit Secured by Collateral	126
XVI	Audit of U. S. Government Demand Deposits Secured by Collateral	129
XVII	Audit of Regular and Special Demand Deposits Accounts	133
XVIII	Audit of Deposits Securing Liabilities Accounts	137
XIX	Audit of Escrow and Fiduciary Deposit Accounts	139
XX	Audit of Due to Bank Accounts	141
XXI	Audit of Official Checks Accounts	144
XXII	- Audit of Public Fund Time Deposits Secured by Collateral Accounts	148
XXIII	Audit of U. S. Government Time Deposit Accounts Secured by Collateral	152
XXIV	- Audit of Regular and Special Time Deposit Accounts	156
XXV	Audit of Capital Accounts	161
XXVI	Audit of Reserve Accounts	165
XXVII	Audit of Income Collected But Unearned Account	170

CHAPTER	PAGE
XXVIII	Audit of Expenses Accrued and Unpaid Account 173
XXIX	Audit of Current Income From Operations Account 176
XXX	Audit of Recoveries and Profits Accounts 181
XXXI	Audit of Other Liabilities Accounts 184
XXXII	Audit of Trust Department 190
XXXIII	Audit of Foreign Department 199
XXXIV	Audit of Non-General Ledger Control Accounts 202
XXXV	Audit of Incoming Collections 204
XXXVI	Audit of Outgoing Collections 207
XXXVII	Audit of Transactions Covering the Purchase or Sale of Securities for Customers 210
XXXVIII	Audit of Safe Deposit and Storage Facilities 213
XXXIX	Audit of Safe Keeping Accounts for Customers 216
XL	Audit of Travellers Checks 219
XLI	Audit of United States Savings Bonds Account 221
XLII	Audit of the Accounting Department 223
XLIII	Audit of the Board of Directors 225
XLIV	Audit of the Cashier or Operations Department 228
XLV	Audit of the Committees of the Bank 230
XLVI	Audit of the Comptrollers Department 232
XLVII	Audit of the Personnel Department 235
XLVIII	Audit of the Premises 239
XLIX	Audit of Stationery and Supplies 241
L	Planning the Audit Program 244
LI	Executing the Audit 252
LII	The Audit Report 268
LIII	Planning the Audit Routine Schedule 276
	Exhibits 283
	Index 359

Exhibits

NUMBER	TITLE	PAGE
1	Comparative Statement of Condition	285
2	Comparative Statement, Income and Expense	286
3	Report of Changes in the Investment Account	287
4	Loan Report	288
5	Report of Overdrafts	289
6	Report of Accounts Opened	290
7	Report of Accounts Closed	291
8	Confirmation Letter, Loan Accounts	292
9	Confirmation Letter, Savings Accounts	293
10	Confirmation Letter, Checking Accounts	294
11	Follow Up Confirmation Letter	295
12	Confirmation Letters, Savings Accounts, for Accountants	296
13	Confirmation Letters, Checking Accounts, for Accountants	297
14	Confirmation Letters, Borrowing Accounts, for Accountants	298
15	Follow Up Confirmation Letters, for Accountants	299
16	Confirmation Letter Envelopes	300
17	Return Envelopes	301
18	Verification Schedule	302
19	Confirmation Letter, Short Form Used by Banks	303
20	Confirmation Letter, Short Form Used by Accountants	304
21	Chart of Accounts, Resources	305
22	Chart of Accounts, Liabilities	308
23	Chart of Expense Accounts, Detail	312
24	Chart of Income Accounts, Detail	315
25	Tellers Cash Detail Sheet	317
26	Tellers Cash Item Detail Sheet	318
26A	Recapitulation Sheet, Tellers Cash Detail	318
27	Loan Verification Tally Sheet	319
28	Overdraft Reports	320
29	Past Due Loan Report	320
30	Schedule of Investments	321
31	Transcript, Properties Accounts	322
32	Property Inspection Reports	322
33	Summary of Budget Provisions Covering Construction	323
34	Transcript of Charges and Losses Accounts	324
35	Schedule of Outstanding Accounts Receivable	324
36	Transcript of Tellers Difference Account	325
37	Schedule of Hold Over Debits Account	325

38	Schedule of Outstanding Letters of Credit	326
39	Schedule of Prepaid Expenses	326
40	Schedule of Insurance Coverage	327
41	Schedule of Sundry Resources	328
42	Checking Account Tally Sheets	329
43	Schedule of Outstanding Official Checks	330
44	Savings Accounts Tally Sheet	331
45	Lists of Stockholders	332
46	Transcript of Capital and Reserve Accounts	332
47	Schedules for Verification of Unearned Discount	333
48	Transcript of Expenses Accrued and Unpaid	334
49	Transcript of Recoveries and Profits Accounts	334
50	Schedule of Charged Off Items	335
51	Schedule of Outstanding Accounts Payable	336
52	Transcript of Tellers Difference Account	336
53	Schedule of Hold Over Credits	337
54	Transcript of Dividends Declared But Not Yet Payable Account	337
55	Transcript of Rediscounts Accounts	338
56	Transcript of Acceptances Executed Account	338
57	Transcript of Advances Secured by Pledge of Securities Account	339
58	Schedule of Sundry Liabilities Account	339
59	Chart of Trust Balance Sheet Accounts	340
60	Schedule of Assets and Liabilities of Trust Accounts	341
61	Schedule of Conversion of Foreign Exchange	342
62	Transcript of Foreign Exchange Accounts	343
63	Schedule of Open Incoming Collection Items	344
64	Schedule of Open Outgoing Collection Items	345
65	Schedule of Open Orders for the Sale of Securities for Customers	346
66	Schedule of Open Orders for the Purchase of Securities for Customers	347
67	Schedule of Delinquent Safe Deposit Rentals	348
68	Schedule of Open Safe Keeping Items	349
69	Confirmation Letter Open Safe Keeping Items	350
70	Schedule Unissued Travellers Checks	351
71	Schedule of U. S. Savings Bonds Unissued	352
72	Schedule of U. S. Savings Bonds, Unreported Sales	353
73	Schedule of Obligations of Officers and Employees to the Bank	354
74	Report of Committees and their Functions	355
75	Schedule of Stop Payment Orders, Official Checks	356
76	Schedule of Claims Pending	357

Foreword



State of Iowa DEPARTMENT OF BANKING

TELEPHONE 4-0377
500 CENTRAL NATIONAL BUILDING
504 LOCUST STREET
DES MOINES 9, IOWA

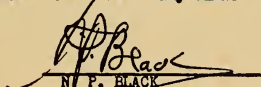
HUGH R. JACKSON
DEPUTY
SUPERINTENDENT
E. B. WILKINSON
ASSISTANT TO
SUPERINTENDENT
OTIS L. JONES
SUPERVISOR SMALL
LOAN DIVISION
DONALD C. BELL
SUPERVISOR CREDIT
UNION DIVISION

The soundness of our banking system is dependent on the development and execution of sound management practices and the maintenance of adequate internal control systems and sound audit programs by bank directors.

The book "HOW TO AUDIT A BANK" by Marshall C. Corns, brings out the importance of each director becoming familiar with their responsibilities and in learning more about the day by day operations of their bank.

The designing of the text so that it can be conveniently used as a manual by bank auditors, as a guide by directors, and as a routine members of the accounting profession can follow in serving their bank clients, is not only timely but a most welcome and much valued contribution to the bank accounting and auditing field.

It is my sincere belief that this new book will be most helpful to the officers and directors of any bank.


N. P. BLACK
Superintendent

CITY NATIONAL BANK AND TRUST COMPANY



F. J. DREXLER
Vice President

Science in Bank Auditing as Mr. Corns so aptly states in his revealing book "How To Audit A Bank" is a development of recent years. Little did we conceive back in 1933 that some of the principles of internal auditing as set forth in the booklet written under the auspices of the Chicago Bank Auditors Conference would take root and be so fully expanded in so short a period of time. The members of my committee and I are grateful to Mr. Corns for his acknowledgment. ably assisting us was Mr. Oscar G. Schalk, then Comptroller of the Mercantile Commerce Bank and Trust Co. of St. Louis, Missouri and President of the National Association of Bank Auditors and Comptrollers. He made many important contributions to our work.

The scope covered in Mr. Corns' new book is an encouraging indication of the really worthwhile developments in bank internal auditing within the past twenty years. Effective internal auditing results in greater efficiency and better management. All engaged in this professional work should take time to review this most recent and complete outline by Mr. Corns. Its contents contain many practical and helpful suggestions.

CHAPTER I

Introduction

THE ownership of the 15,000 odd banks in the United States through which commerce and industry is carried on, is vested in thousands of stockholders. These stockholders, composed of widows, estates, persons who have inherited bank stocks, and independent business men, have investments of stock in banks ranging from a few dollars to hundreds and thousands of dollars.

As these stockholders generally, irrespective of their investments, find it obviously impossible to participate actively in the management of the bank in which they have a financial interest, they elect, at annual periods, from among their membership, a prescribed number of stockholders as directors, to represent their interest in the management of the business.

Bank directors in general are selected because it is believed their reputation as respected or influential members of the community will supply some prestige to the bank; it is expected they can influence certain groups, companies or influential people to do business with the bank; or are elected as the representatives of substantial holdings of stock. The caliber and reputation of directors does not depend on the bank. On the contrary, the reputation of a bank, to a great extent, is a reflection of the reputation, stability and integrity of its directors, who are supposed to represent the highest type of citizenry.

The ordinary citizen in choosing a bank is concerned with the men who are responsible for its management. After all, it is the depositors who have the money to entrust to the bank which enables a bank to grow and make loans which assist in developing the community.

The stockholders likewise look to the directors for safeguarding their investments in the bank; to see that the objectives of the bank are attained; and that the affairs of the bank are soundly administered in their behalf.

Unfortunately, there are too many directors of banks who consider a directorship as an honor and fail to recognize their rightful obligations to the stockholders and depositors. Unfortunately too, there are those who are elected to the board through the influence of the President to provide support for his policies and leadership (which sometimes are contrary to the interest of other stockholders); while others, are self-elected, that is, elect themselves because of their large individual stockholdings and follow the practice of supporting or initiating matters only when such matters or proposals benefit themselves.

Often, the latter are not the most respected or influential members of the community and hinder rather than help the progressive actions and administrative decisions of the Board of Directors by attempting to dominate the board because of the large number of shares of stock they own or control. Fortunately, such persons, regardless of the number of shares of stock held or controlled, only have one vote as a director. It is to be regretted that such holders of large numbers of shares of stock, or those who control large blocks of stock can be influential at the annual stockholders meeting, especially in cases where cumulative voting is permitted to elect more of their own kind.

Directors, as the name implies, are supposed to direct and not manage. They are not expected to take an active part in the normal day by day routine operations of their bank, but to delegate the responsibility for administering the various management functions to competent officers selected by them. It is their responsibility, however, to be certain that the men they select are qualified to assume and discharge the responsibilities delegated to them.

Directors, in addition, should have sufficient confidence in the integrity of the individuals engaged, to insure, at least as far as their own minds are concerned, that affairs will be conducted properly.

If directors of banks had nothing more to do but direct the affairs of the bank on whose board they serve as directors, there would be little question of the soundness of management, or the utilizing, in day by day operations, of good judgment, prudence and the safeguarding of assets.

Bank directors, however, are usually busy men who have demands made on their time, by the responsibilities of their own business interests. While they are considered managers of each business in which they serve as directors, and are permitted by law to delegate the responsibility for active day by day execution of policies and routine supervision of functions to selected officers and employees, they cannot delegate nor can they ignore their real and moral responsibilities to the stockholders, depositors and people of the community to operate a safe and sound bank and adequately provide for the financial needs of the community.

While it is true that active management is often thought to be responsible for the progress of a bank or any business, it is the exception. A dominant and aggressive individual can be, and more often is, the apparent force behind a progressive business; yet, he is successful only because his associate directors or officers are in accord with his principles, and themselves possess the initiative, judgment and qualifications for the successful operation of the business as publicly expressed through the action or directives of their spokesman—the President.

In addition to having a broad and general knowledge of the manner in which the affairs of the bank are being conducted, directors should be sufficiently acquainted with the internal operations of the bank to enable them to exercise judgment in their decisions and see that certain standards of performance are maintained.

The responsibilities of directors as managers, and their obligations to administer the affairs of the bank in an honest and diligent manner, can only be discharged through:

- A. The selection of trustworthy and competent personnel to act as active officers and employees of the bank.
- B. Administering the affairs of the bank in accord-

ance with the By-Laws, sound management principles established by the directors, and the federal and state laws under which the bank is chartered.

- C. Establishing safeguards and diligently protecting the assets of the bank in which funds, entrusted to the bank by depositors for protection and safety, are invested.

In connection with management.—It is usually the practice of a Board of Directors to formulate the policies in connection with investments, loans, interest rates, public relations, and other principal phases of the banking business, leaving the execution of such policies to the President and other senior officers. While the fundamental principles of management are the same in any line of business, there are certain aspects of every business which require specialization. For example: The director who is a successful clothing merchant should not be expected to know the details of operating a Trust Department, or to understand the need for the close relationship between trust officers and lawyers. To obtain this “know how” the directors employ the services of a man with legal training, preferably one who has passed the bar examination of the state in which the bank operates, to assume the responsibility for supervising the operations of the Trust Department.

The director who is a successful druggist is not expected to know the intricacies of executing a chattel mortgage on an automobile or household appliance, nor is he supposed to know how to conduct a credit investigation or to effect collection and payment of a delinquent installment of a consumer credit loan. Recognizing the need for a person with specialized training, the active management of the Consumers Credit or Installment Loan Department is delegated to a person who has had experience in the installment loan field.

The director who is successfully engaged in the mercantile business is not expected to know accounting and auditing routines, the procedures required to establish safeguards over assets, or the type and scope of a system designed to

INTRODUCTION

protect the bank from falsifications of records and embezzlements. It is for this reason that many conscientious Boards of Directors of banks either (1) employ a qualified person to act as Auditor of the bank and have him responsible only to themselves (2) select a reputable firm of accountants to periodically and independently examine into the affairs of the bank and report to them or (3) annually or semi-annually, as the law provides, examine the affairs of the bank themselves.

The same reasoning applies to every other position of importance within a bank, many of which require certain specialized abilities. These abilities, when effectively coordinated, build an organization team which can successfully operate any type of bank.

Unfortunately, many directors do not recognize the extent of their responsibility for the maintaining of adequate records, the establishing of proper internal controls and the setting up of other safeguards which should be devised for the protection of assets, the funds of depositors and interests of stockholders.

On the other hand, the officers of many banks, while recognizing the need for such "protection", are reluctant to call the attention of the directors to such matters for fear it will reflect against their ability. They say "That's what we are hired for". This type of banker should recognize the fact that the bigger and more important a man is, the more he asks for help and constructive criticism. It's only a small man who is so filled up with his own importance that he wishes to be "all things to all people".

A real executive knows his own limitations and attracts to himself others who possess the qualifications required to make up a good team. A bank executive or loan officer, if he is good; should have imagination in order to see the results of his endeavors—the growth of the bank from an earning standpoint because of the investment of new deposits—the increase in balances of certain accounts because of the successful application of funds borrowed from the bank—looks objectively at a situation, and, while recognizing the negative factors, provides a solution which renders them less

important. On the other hand, if he gives too much importance to the negative factors and is of a conservative nature, he places too much importance on the unfavorable aspect and declines to make the loan or doesn't "go out after the business" for fear the account will be tied up with a loan request which he doesn't want to grant. Recognizing these respective attributes of human nature, a sound and progressive banker should realize that his viewpoint, if he is a loan officer, is different than it would be if he was concerned with operations, mechanical procedures, or engaged in bookkeeping transactions. He would welcome the addition to the staff of the abilities and qualifications of a person gifted with an analytical mind and possessing the patience to painstakingly check out, confirm and verify numerous and sundry transactions—the duties and responsibilities of an Auditor.

Many times adequate internal auditing systems, established within a bank, become useless because of changes and modifications. Many of these changes occur because some officer or department manager is fearful that the following of the suggested routine might embarrass or antagonize the personnel of the particular department being audited; or be construed as being a reflection against the honesty and integrity of employees who apparently "have faithfully and conscientiously performed their work" over the years. This attitude, if allowed to continue, reflects against the directors, who also have the responsibility of seeing to it that all employees are protected against themselves and protected from taint of embezzlement, through the adoption of proper internal auditing controls.

Whenever directors or officers object to an audit program, it should be pointed out to them that today's accepted business practice calls for periodical independent examinations and audits, and that the majority of officers and employees not only welcome an audit or examination because it furnishes management and the directors with an accounting of their stewardship, but because it is one of the few mediums through which their individual capabilities and qualifications can be called to the direct attention of the

INTRODUCTION

directors, thus opening up opportunities for advancement and promotion.

Directors of banks, however, should question the qualifications of persons who engage in bank examination or bank auditing work. While some knowledge of accounting fundamentals and technical auditing procedures is necessary, a comprehensive knowledge of banking operations is a prerequisite and a *must* if a thorough job is to be done.

The general attitude implied or expressed by many bankers and bank directors, in connection with the adoption or installation of sound audit routines and the employment of a full time Auditor, responsible to the Board of Directors, indicates that they are not taking the potential losses from embezzlements and falsifications of records seriously.

Too many officers and directors lull themselves into a false sense of security by believing they could not have an embezzlement in their own bank because they "know everybody in the bank"; are "thoroughly familiar with what goes on in their bank"; believe they are exercising their responsibility because "the bank maintains adequate fidelity insurance", so they will not experience any financial loss for "that is what insurance is for".

This is not the case, however. According to Texas bank records, 104 insured banks incurred losses from embezzlements and defalcations from January 1934 to April 1951 so much in excess of their surety bonds that they had to close. Defalcations were for fourteen million dollars, while the surety coverage was for only two and one half million dollars. This does not include the enormous obligations other banks, which did not close, assumed in order to cover the losses.

It is generally the accepted fact that embezzlers are made—not born. Usually an embezzler is basically an honest man or woman, an erstwhile officer or employee who finds himself or herself in adverse circumstances and is tempted beyond their power to resist. Everytime we establish adequate controls we lessen the opportunity of temptation. Psychologically, we should realize that the conduct of most people in the world is governed to a great extent by fear of conse-

quences. A child does what he is told because of fear of punishment. People obey laws because if they don't, they will be fined or put in jail.

We follow certain rules of conduct, which govern our day by day dealings with other people, because we are afraid of criticism or consequences. In other instances, we do not do wrong because the end to be attained or objective to be accomplished, does not justify the risk or trouble involved. For example: a little boy will not hesitate about taking a ripe rosy apple from the neighbor's yard if the trees are convenient to him, but if it is necessary for him to climb over a fence in order to reach the apple tree and the apples are high up in the tree, he has to decide whether or not the apple is worth the trouble of climbing the fence and the consequences of punishment if he would get caught.

The circumstances of embezzlements, and actions which result in defalcations are similar in their operation to those which result in spontaneous combustion, the workings of an atomic bomb or the utilization of nuclear energy. Action only takes place where and when a number of factors are present under a given set of circumstances. It is the responsibility of the directors, moral and legal, to properly set up controls and see that such controls are operative in a manner so that circumstances do not occur under which an embezzlement or defalcation takes place.

While the carrying of adequate surety coverage *may* discharge the directors and management of the bank from their financial obligations which they owe the stockholders, what about the moral obligation which they owe their employees?

Failure to provide adequate internal audit controls to prevent or retard embezzlements or defalcations, not only reflects on the management of the bank, the diligence of the directors, but against the integrity of the individual employee. Too often the stigma does not rest alone with the embezzler but on innocent people whose knowledge of there being "something wrong" reflects in their attitude toward their associates, their health and their relationship with the public.

The fact that directors do not adequately protect the

INTRODUCTION

bank or their employees, is reflected in their Public Relations program in reverse order. Knowledge of, or a supposition of, loose methods and procedures, or sloppy operating methods certainly would discourage the highest type of person from seeking employment in a particular bank knowing full well of the possibility of becoming involved in a public scandal.

Officers, on the other hand, in many instances throw temptation in the way of employees because of their disregard for protective controls, extravagances in their way of living, indifference to the problems of the employees and their apathy to obtaining salaries and wages for their employees commensurate with their many responsibilities and cost of living. Adequate wages, the expense of installing and maintaining satisfactory internal audit controls and the cost of a periodical audit conducted by qualified independent accountants and auditors are just as much a cost of doing business as are rent, light, stationery and supplies, etc.

What about people in the community? The people of the community look to the bank for the credit assistance they need to conduct business, and as a safe place in which to keep their money. Don't the directors have an obligation to the community and to the business men of the community whose livelihood depends upon the successful conducting of their financial business through normal banking channels, to see to it that the bank is properly operated? Isn't it up to the directors to see to it that the resources and liabilities are amply protected by proper internal controls and audit programs sufficiently tailor made to fit the particular needs of their bank? This is a responsibility often overlooked.

What about our fellow directors? When an embezzlement occurs, are not the directors saddled with a moral responsibility as well as a financial responsibility? Haven't they been negligent for failure to take ordinary precautions and safeguards warranted under the circumstances? Haven't they contributed to the bad situation by their negligence in attending meetings? Haven't they also contributed by failing to voice their opinion against practices which they did not believe to be wholly sound?

Prior to the Banking Act of 1933, as amended 1935, stockholders of most state banks were liable to depositors for losses to an amount equal to their investment in stock of the bank. While double liability to a great extent has been eliminated, common law, the banking laws of respective states, the Banking Act of 1933/35, the Federal Reserve Act and the act creating the Federal Deposit Insurance Corporation, all have provisions which hold directors liable for negligences which result in embezzlements and defalcations.

Up to now circumstances and the times have been on the side of the directors, as in no case have they been held financially liable for such losses. This, however, is only because of the present reluctance of the supervising authorities to exert pressure to enforce the law. It is only a matter of time, we believe, until proper and warranted action will be taken to place responsibility for the failure of management with the directors, where it belongs, and to have them fully assume the financial burden as well as the moral responsibility.

CHAPTER II

Responsibilities Of Directors

The trust vested in a director of a bank goes beyond the responsibility based on his general knowledge of the business. This is due to the fact that only a very small percentage of the working capital of a bank is supplied by the stockholders.

Funds belonging to stockholders are only represented by Capital Paid In, Capital Dividends, Surplus Paid In, Surplus Earned and Undistributed Earnings; whereas the balance of the "working capital" is supplied by the various classes of depositors who have entrusted their funds to the bank for safety and the use of the facilities of the bank as a vehicle for conducting their commercial transactions.

The job of being a director of a bank is therefore, somewhat like that of a trustee. As such, he must not only have confidence in the management and knowledge of the affairs of the bank, but assurance, through suitable means, that the funds over which he has fiduciary responsibility are properly taken care of and safeguarded. This responsibility he discharges through the establishing of internal audit control systems, independent audits and periodical direct verification of the asset and liability accounts.

While the liability of directors in commercial enterprises is somewhat limited, the liability of a bank director is quite extensive. Every director of a state and national bank has four classes of responsibilities, all of which render him liable and accountable for mismanagement of the affairs of the bank.

- a. Those imposed by the federal supervising authorities—(Comptroller of the Currency—Federal Deposit Insurance Corporation — Federal Reserve Act.)

- b. Those imposed by the banking laws of the respective state in which the bank does business.
- c. Common law.
- d. Those arising from a fiduciary relationship between stockholders and depositors as contained in the by-laws of the bank.

The provisions of the Federal Reserve Act in connection with management are somewhat all conclusive in that they provide that each bank director is liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other person, shall sustain in consequence of violations of any provision or regulations of the Federal Reserve Board, made under authority.

While the laws of the various states vary somewhat in their text, they are, for practical purposes, uniform in defining the duties and responsibilities of directors. In general, the banking laws of the various states provide that directors shall:

- 1. Cause suitable books of accounts and records of all transactions of the bank to be kept.
- 2. Elect the president and appoint the other necessary officers and employees; fix their compensation and see to it that the officers and employees are properly bonded and that their duties are described and faithfully performed.
- 3. Design the forms of notes used by the bank in loaning money.
- 4. Amend and modify the bank's By-Laws from time to time to meet the changing requirements of business.
- 5. Fix, from time to time, the loaning rate of interest of the bank, the rate of discount and the interest rate to be paid on deposits.
- 6. Examine and approve (at each monthly meeting) the loans which have been made by the bank during the month preceeding.
- 7. Cause an appraisal to be made of the real estate security on which all mortgage loans are to be made. Such appraisal to be made by their own

members or by qualified disinterested appraisers, acting independently, who shall make a written report of their appraisal, which shall become part of the record of the bank.

8. Appoint a committee of stockholders (directors or others delegated by them) or public accountants to audit the books of the bank at least once a year. The report of such committee or accountants to be recorded upon the minute book of the bank.

As from ancient times the principal functions of a bank have been in connection with the borrowing of money, and as earnings of a bank are, to a great extent dependent on the loaning and investment of deposits and capital, banking laws and regulations of the respective states and governmental supervising authorities are somewhat strict as to rules under which funds can be invested or loaned.

Under federal and state banking laws, there are regulations which limit the maximum loan which can be made to one borrower to a percentage of capital. There are other regulations which limit the total amount of loans to a percentage of capital or a percentage of time and-or demand deposits. In some cases there are regulations covering the percentage of capital which can be employed in loans secured by stocks, bonds, and collateral obligations of the federal, state and municipal governments. In addition, there are regulations covering the extension of credit, loans or advances against commercial paper, bankers acceptances, paper discounted and other obligations. There are also provisions covering the investment of funds in real estate mortgage loans and regulations setting forth the class and types of securities which may be invested in trust funds, if the bank possesses and is exercising their trust powers. In addition, there are rules and regulations covering the conduct of business and the handling of bank transactions incorporated in the laws of the respective states or regulations of the supervising authorities under which the bank operates.

It behooves, therefore, the directors of every bank to become thoroughly familiar with the laws under which the

bank of which he is a director operates and the regulations covering the conduct of business.

Under common law, the directors of every bank are duty bound to exercise ordinary care and prudence in the administration of the affairs of the bank and every director can be held liable for losses under civil action, in his personal and individual capacity, jointly or severally, if losses occur through his failure to exercise ordinary prudence and diligence.

While directors are not required to devote their entire time to the details of business management and may delegate routine work to duly authorized representatives, the courts have held that they are liable for negligence in discharging their duty unless they render and exercise general supervision.

The courts have also held that directors can not discharge their duties by pleading ignorance of transactions in which they did not participate.

The following are a few of the instances where directors may be held liable for losses due to their negligence:

- A. The making of loans where the security taken is insufficient.
- B. The certifying to or the permitting of checks to be certified against an insufficient or overdrawn account.
- C. The failure to appoint a Discount and Loan Committee.
- D. The failure to appoint an Examining Committee of directors when required by the By-Laws, and failure to see that such committee functions.
- E. The failure to audit or examine into the affairs and conditions of the bank periodically, or to cause same to be audited or examined.
- F. The failure to use reasonable efforts to collect slow or doubtful assets.
- G. The permitting of improvident expenditures in the conduct of the bank's business.

RESPONSIBILITIES OF DIRECTORS

- H. The authorizing of improvident investments.
- I. The negligence to take appropriate action to collect loans due to the bank.
- J. The allowing of improvident overdrafts.
- K. The failure to charge off assets at the direction of the bank supervising authorities or representing such assets to be good after such notice.
- L. The failure to require proper bond from officers and employees of the bank.
- M. The permitting of control and management of the bank by incompetent officials.

Respective banking laws usually hold that every director or officer of any banking association who shall violate, participate in, or assent to such violation, or shall permit any of the officers, agents or servants of the banking association to violate the provisions (of the law), shall be held liable in his personal and individual capacity for all damages which the banking association, its shareholders or any other person shall have sustained in consequence of such violation.

The banking laws of the various states provide that every bank director shall take and subscribe to an oath of fealty to the bank of which he is a director, that he will, so far as the duty evolves on him, diligently and honestly administer the affairs of such banking association, and will not, knowingly violate or willingly permit to be violated, any provisions of the act, laws or regulations governing the conduct of the banking business.

From a management standpoint, directors discharge their responsibilities by seeing to it that the By-Laws of the bank are adequate. From an operating standpoint, directors discharge their responsibilities by providing for the delegation of responsibilities to the proper committees or by giving the Board of Directors the right to delegate responsibilities to committees and officers.

It is also the responsibility of the directors to develop sound and practical policies, in connection with investments, loans, personnel, advertising and new business, for active management to use as a guide.

The duties, responsibilities, and liabilities of directors are not governed alone by the statutes, but also by common law. Briefly, the common law principles applicable are: THAT DIRECTORS EXERCISE ORDINARY DILIGENCE, REASONABLE CONTROL, AND HAVE GENERAL KNOWLEDGE of the problems of their bank.

If a director takes an active interest in his bank—follows his statutory duties, and decides on questions with intelligent reasoning and care, there need be no fear of common law action.

One of the most effective ways for conscientious directors to become thoroughly acquainted and familiar with the operations of their bank is through the monthly reports on the bank's operations presented to each director at the monthly meeting.

Unfortunately, too many banks follow a practice of only giving required information to directors; other banks give the directors reports so full of figures and statistics as to be meaningless; while others do not provide directors with sufficient information to enable them to form opinions as to progress and conditions of the bank and intelligently reach decisions.

The most practical type of report for directors consists of seven principal sections, per Exhibits 1 to 7, in the following order of importance:

1. Comparative Statement of Condition.
2. Comparative Statement of Income and Expense.
3. Changes in the Bank's Investment Portfolio.
4. Lists of Loans Made—Paid or Renewed.
5. List of Overdrafts.
6. Report of Accounts Opened.
7. Report of Accounts Closed.

COMPARATIVE STATEMENT OF CONDITION

The Comparative Statement of Condition is of importance to the directors because it gives them the information on the financial condition of the bank as of a certain date. By checking current figures furnished in the report against

the same figures for a previous period, he can make comparisons and determine the progress of the bank over a period of time. Too many comparative statements furnished directors carry the same detail as is contained in the daily Statement of Condition, which, depending on the bank, is generally too detailed for the practical use of the directors.

While it is of interest to Directors to observe the progress of their bank, it is questionable whether statements which show figures for the current month, previous month and similar month a year ago, with computations showing the increase or the decrease, really serve any purpose. Local matters, economic conditions, changes in a tax period, the weather, and many other factors making comparisons between months generally unreliable.

The most practical form of a Comparative Statement of Condition is that which compares figures of the bank for the current period with figures for the corresponding period in the previous year, similar to the setup on the suggested form.

As the purpose of comparative statements is to get an idea of progress, it also seems a waste of time to carry the figures out to fractional amounts. Nothing is lost by dropping the uneven dollars and units if the amount is less than \$50.00 and using the digit to report the total. For example: reporting \$153,642.16 and writing it as \$153.600.—or better still using decimals and writing it as 153.6.

Comparisons are valuable as they not only show the trend or the progress of the bank, but indicate figures by which the directors can analyze the quality and progressiveness of management. After all, the Statement of Condition merely *reflects* the progressiveness of those charged with the responsibility of managing the bank. Reasons for a decline in deposits often indicate that efforts are not being made to solicit or attract new business. An increase in government and municipal funds, which carry a lower rate of interest than loans, very often indicate laziness or indifference of the bank through its officers in respect to supplying the credit needs of the community.

INCOME AND EXPENSE

Only by having knowledge of the Income and Expense of the bank and the determining of the net profit after estimated tax liability and losses, can directors know what share of the profits can be set aside for reserves and for dividends to the stockholders.

A study and analysis of the Income and Expense Statement can disclose many important trends, which again, is indicative of the quality and caliber of management. Unless machinery and equipment, furniture and fixtures are periodically replaced, the efficiency of the bank is impaired; again a reflection on management. Unless depreciation is charged to expense or a proper routine set up to amortize buildings, furniture and fixtures and machinery, the bank's earnings ultimately suffer when it becomes necessary to replace such assets.

The detail in the Income and Expense Report is more or less necessary as decreases in income and expense provide the opportunity for directors to appraise management. More important, directors can exercise an audit control over income and expense as without prior notice to the management of the bank, they can ask for and receive for review, sales invoices in connection with charges to expense and review the details and sources of earnings by making estimates and analysis of earning assets.

While comparative figures indicate a trend, they should reflect a proper basis of comparison for like periods. Comparative figures between months, such as figures for this month and previous month showing the increase or decrease, entail a considerable amount of work and are absolutely of no value inasmuch as they are governed by many conditions over which the bank or management has no control.

The most practical Comparative Statements of Income and Expense are those which show the income and expense for the current month, the income and expense for the year to date, and income and expense for the same period to date in the prior year.

These suggestions are incorporated in the suggested form of report. Here too, from the standpoint of simplification and efficiency, odd dollars and cents can be dropped and even decimal figures substituted.

CHANGES IN THE BANK'S INVESTMENT PORTFOLIO

The investment account of a bank represents an important source of earning assets and the secondary reserve; cash, of course, being the first. When deposits are suddenly withdrawn or economic conditions result in a gradual decline of deposits, loans and investments must be liquidated. Generally, the chief executive officer, usually the president or someone working closely with him, enters the orders for the purchase or sale of securities for the bank's investment account. All such transactions should be properly authorized by the Board of Directors either prior to the placing of the order or, as it is sometimes the case, after the order has been consummated in line with established policies in accordance with generally implied approval of the board. The make up or the composition of the investment account should be predicated on the make up and composition of the funds available for investments, which consist of capital invested by the stockholders plus undistributed earnings, not invested in fixed assets, and funds deposited on a time or demand basis by customers.

The greater the percentage of deposits in a larger number of accounts, the less risk in investing funds in longer maturities with a corresponding higher yield. Conversely, the greater preponderance of deposits in a lesser number of accounts, the more need there is for maintaining investments in shorter maturities and of the bank maintaining a high liquid position. Proper analysis and review of these and other factors by the directors, should insure the bank of receiving maximum income from the investment of funds.

The investment account provides an opportunity for the directors to check on auditing controls by periodically requesting to see the brokers tickets or advices of debit and

credit covering various transactions, to be certain that interest as charged to the Interest Paid Account is properly figured, and that the price as reflected on the bank's books corresponds to the price as shown on the Brokers Confirmation Ticket or correspondent bank's debit or credit form. It is also good auditing procedure to occasionally compare the price, as shown on the Brokers Confirmation Tickets or Bank's Advice, with the market quotations as reported in the papers on the day the transaction was made.

LOANS MADE, PAID OR RENEWED

Knowledge of loans made, paid or renewed should be of prime interest to the directors. The making of loans and the investment of deposits placed with the bank for safety is not only a source of income, but a medium through which commerce of the area is carried on and the progress of a town stimulated.

While it is required that directors approve all loans, many times this is accomplished by having the secretary of the board, who usually is the cashier, read a list of loans made, by number, and having the Board of Directors approve loans in the minutes by approving the phraseology "Loans (number) to (number) inclusive, approved as read."

Many banks follow the practice of only bringing to the attention of the directors, for approval, loans over a certain amount. While there seems to be little justification for directors reviewing loans of all amounts, they should however, establish a procedure whereby an Executive Committee or Loan Committee, meeting weekly, would review every loan made and every loan application filed together with the credit folder and liability ledger covering past history, if applicant has been a previous borrower.

While the bank examiners and supervising authorities review and evaluate all of the larger loans during their periodical examination, the directors likewise, should review loans at least annually. This review should not be confined to examining the notes, but to reviewing the Credit Files, Financial Statements and the Liability Ledger at the same

time. In reviewing the Credit Files, the directors should concern themselves with the extent to which current information contained in current balance sheets and profit and loss reports are furnished. In connection with financial information, directors should concern themselves, particularly in connection with the larger loans; whether the figures are furnished by a Public Accountant or Certified Public Accountant who has appended his certificate to the report, or whether the figures have been taken "from the books of the company" by the company's own bookkeeper, accountant or auditor.

If the financial reports in the file are prepared by a Certified Public Accountant, they can generally be relied upon as being accurate. Particular attention, however, should be paid as to whether or not the Accounts Receivable have been directly verified and whether or not the figures representing the inventory of raw materials, goods in process and inventories of finished goods have been reconciled with control figures in the course of the audit. If this important phase of the audit has not been included in the scope of the examination, it might behoove the directors, depending on the circumstances, amount of loans, financial position of the borrower and other factors, to have a special checking made of these items.

If the financial reports in the file are prepared by the company's own auditor, bookkeeper, or accountant, it is to the interest of the directors to review the comparative figures from one year to the next to be sure that they correctly reflect the condition and progress of the company. Special attention should be directed to the Profit and Loss Statement and the balance sheet and in determining that the figures reflecting inventory on hand at the end of the previous year are the same as the figures representing inventory on hand at the beginning of the current year. It should also be noted if proper consideration is provided for reserves for bad or doubtful accounts, and wherever sales are conducted on the installment basis, that a proper aging of receivables is included.

Where figures are prepared by a Certified Public Ac-

countant or Public Accountant from the books of the company, directors of the bank should concern themselves with the manner in which this information is recorded on the books of the company.

If the figures, as prepared, cover a certain period of time, such as the first quarter or first half year and the company follows the practice of having annual figures prepared by their accountants under a program which includes standard procedure and direct verification of receivables and inventory, the report can generally be accepted.

If however, the report is prepared by the accountants from the books, which details are supplied by management, the fact that the accountants prepared the statements has nothing to do with the correctness of the report or integrity of management and should be construed, reviewed and subjected to critical analysis in the same manner as though the figures were furnished by the company itself.

Loans paid should be scrutinized by the directors to be certain that loans have actually been paid from the proceeds of profitable operations and not from a depletion of working capital or bank balances or a holding back of payments due suppliers, which would require the bank's assistance in thirty or sixty days.

It is very helpful to check loans, particularly the ones of the larger customers, with the liability ledger to study the past performance of the company and determine, if possible, whether or not such loans and the payments at maturity follow a fixed pattern and give indication of borrowing from other banks, or indicate an undisclosed revolving credit either of which would make the borrower an undesirable credit risk. If current operations are financed by such methods, it indicates the need for additional working capital.

Loans renewed should be reviewed by the directors, or the report to the directors should carry a column showing all renewed obligations outstanding. Here too, directors should be careful to scrutinize the Liability Ledger. Often, a renewal loan brought to the directors for approval might be approved only because of the amount, in relation to their

RESPONSIBILITIES OF DIRECTORS

individual's worth. The next month, the same person might have another loan which is presented to the directors for approval, which too would be considered as being the sole amount owing; whereas, if the total amount outstanding was known, the judgment of the directors might be to require payment or have the outstanding indebtedness placed on a definite reduction schedule.

OVERDRAFTS

The monthly directors report should contain a list by date, name and amount, of all of the overdrafts as of the end of the month, together with comments as to frequency. While overdrafts are prohibited according to law, they are a necessary evil. The payments of overdrafts, however, according to the Banking Act of 1933, as amended in 1935, makes it a personal liability of the officer or person approving the overdraft. Depositors who continuously are overdrawn are not only being granted unsecured credit, usually with the approval of the Board of Directors, but operating an account maintained by the bank at a substantial monthly expense and analyzed loss.

On the other hand, if overdrafts are not created when checks are presented for an amount greater than the balance of the account; it therefore, follows that the checks presented are returned for Insufficient Funds. All such accounts, which the bank continues to carry, reflect against the bank's goodwill and reputation. Customers who make a practice of issuing checks without having sufficient funds on deposit should be tactfully requested to close their accounts.

ACCOUNTS OPENED AND CLOSED

The report of accounts opened, by name and amount, should be furnished the directors, as the report is a vehicle for evaluating the new business activities of the officers and the extent to which the bank is obtaining their share of business from new residents in the community. Another reason for including this report is that often a director might per-

sonally know the person who opened the new account and is in a position where a word of appreciation for the account would not only be welcome, but contribute to the development of additional business.

Information in connection with closed accounts is likewise helpful to directors. More important, such a report should not only show the name of the customer who closed his account and the closing balance (for usually the amount as shown represents the last check that is presented) but the average balance and the reason if known. The moving away from a community is a good reason for closing an account, but often, at times, accounts are closed because of discourtesy, indifference, poor service and other reasons, all of which should be of interest to directors, if they are properly supervising the management of a progressive institution.

CHAPTER III

Bank Examinations and Audits

Directors of banks, to a great extent, technically discharge their legal responsibilities as directors by attending directors meetings, by expressing opinions on matters which are referred to them for attention and decisions, and by insisting on reports being furnished them which carry sufficient detail and information in connection with the operations and activities of the bank to enable them to exercise good judgment and act with prudence in all matters affecting the bank.

Directors, on the other hand, do not discharge their moral responsibilities unless they are certain that the facts and figures, upon which they are expected to render an opinion or make a decision, correctly reflect conditions as they actually exist. This can only be brought about, with any degree of assurance, when the directors periodically examine the affairs of the bank themselves, or cause the affairs of the bank to be examined by others to whom they delegate this responsibility.

Reference to the directors examining the bank is only made because it is one of their responsibilities. The fact that directors do not examine the bank according to law, or that the bank follows no formalized audit routine, does not imply that the bank is without any type of control, routine or procedure, which would give some elements of protection or establish safeguards over the operations of the bank. Every bank regardless of size, has to a degree, an internal audit and protective system whether formalized or not. This occurs because it is only under unusual circumstances that all of the various steps and phases of an operation are performed by the same individual. It therefore follows, whenever two or more people handle the same transaction, that there is some degree of checking or verification. These fac-

tors of protection, however, are not an absolute check of one employee's work against another or assurance that the transaction was initially handled in the proper manner. It is, however, one of the facets of audit control which cannot be minimized.

In the final analysis, the protection and safeguarding of assets and the proper and continuous determination of liabilities can only be accomplished by intensive and continuous checking and the adoption of direct verification procedures undertaken either by a bank's own auditor, the directors themselves, or by their duly appointed representatives.

Under the present laws, promulgated by the Comptroller of the Currency (in connection with National Banks) the Federal Deposit Insurance Corporation (in connection with all insured banks), the Federal Reserve Board (in connection with member banks), and the Banking Department of the various states (in connection with banks chartered by the respective states), the directors of banks are required to examine, or appoint a committee of directors, or their representatives to examine the affairs of the bank at least once a year, and to make a written report of the results of such examination to the stockholders through the directors.

Generally such committee is composed of at least three members of the Board of Directors, who either attempt to do the examining themselves or supervise the personnel of the bank who are selected to perform the mechanical details of the examination.

Examinations, when undertaken by the directors themselves or the Directors Examining Committee, are usually carried out over a weekend or on a holiday, when time for this work can be arranged, as obviously few men can spend several consecutive days, generally required to do a proper job, during the week.

Unfortunately, in the majority of cases, such directors examination are a waste of time and conducted as a token effort to comply with the banking regulations. In too many instances their muddled efforts only succeed in further impressing the bank personnel with their limited knowledge

of the banking business. On the other hand, a Directors Examining Committee could do a commendable job providing certain fundamentals are adhered to and a proper "Plan of Examination" adopted.

Any such plan or program, however, should only be agreed upon and approved by the Board of Directors (with or without the assistance of outside competent counsel) after a thorough study of all exposure points has been made. In such cases, it is further recommended that authority and responsibility for executing the program, if at all possible, be delegated to a director, as supervisor of the program, who is not active in the management of the bank. Wherever possible, directors who are officers of the bank should not be members of the Examining Committee.

The important factor of the director in charge of the examination program having a broad knowledge of the banking business and other qualifications should not be overlooked, as the success of an examination depends entirely on direction and guidance. The director in charge of the examination should possess a good general knowledge and have a practical familiarity with the operations of the bank; be able to instruct and guide his "associate examiners" in following a comprehensive routine; and be capable of extending, modifying or revising the routine to fit the changing conditions.

Such a routine, tailor made to fit the exposure points of the individual bank, can be devised from using the routine and outline as set forth in this book.

In cases where the Directors Examining Committee actually performs most of the work themselves, at least to the extent of their ability, it is often of great help and benefit to the bank to rotate members of the committee so that all directors, except those active in the management of the bank, can become more familiar with the operations of the bank.

Directors in undertaking or supervising the undertaking of the proper type of examination, once the scope and routine has been determined and approved, should diligently follow a rigid and tight procedure.

It is of primary importance that the time and day se-

lected by the Directors Examining Committee for conducting the examination be unknown to the officers and employees of the bank. The importance of the "surprise" element cannot be minimized. Of course, it is necessary to make certain preparations in advance. These however, can be done in a very efficient manner by having the director in charge of the examination be at the bank on the day prior to the day selected by the committee for conducting the examination and having him, prior to the closing of the vault, tell the officer in charge of closing the vault to set the timer so it will open the following morning at the time set to begin the examination. The director should then check the time mechanism; see that the vault is immediately closed and affix a suitable seal. Only after this procedure has been followed should he inform those who are going to assist in the examination of the program.

Personnel of the bank who are going to assist in the examination should then be informed, and the employees of the bank, who have the custody of the records and assets and liabilities required in the examination, should also be requested to be present at the bank at the time specified, so their records and the property in their possession, can be examined.

On the day of the examination, all members of the Examining Committee and bank personnel selected to assist in the examination, as well as the bank employees whose work or records are to be examined, should be at the bank for final instructions, prior to the hour when the time mechanism on the vault will be released.

When the time at which the locking mechanism is released arrives, the director in charge of the examination should break the seal and request the officer in charge of the vault to open it.

As soon as the vault is opened, the director in charge of the examination should enter the vault and, by suitable means, seal all compartments or safes containing cash, securities, notes, collateral or other assets and take under control all savings, checking and liability ledgers and other records representing assets or liabilities. The seals affixed to

such ledgers or compartments should only be removed or broken by one of the examiners at the time he takes physical custody of such ledgers or compartments for examining or verification purposes.

At the beginning of the examination, the bank employee who is in charge of posting the general books should be requested to post all general ledger tickets to the General Ledger and subsidiary ledgers (if they were not posted at the close of business the prior day) and to take off the Daily Statement of Condition so as to reflect the condition of the bank as of the date of examination.

In undertaking the examination, each member of the examining staff should be assigned certain duties. The first assignment is usually in connection with the counting and verification of teller and surplus cash, which is done in the presence of the respective teller. Once the cash is verified, it should be returned to the teller from whom received, who should give the examiner a receipt for the amount so verified.

Other examiners should be assigned to make an adding machine run or listing of the individual ledgers of the savings and checking departments, the totals of which should be compared and balanced with the General Ledger control figure. Ledgers containing all of the accounts whose totals are shown on the Daily Statement of Condition should be likewise run and the totals compared with the General Ledger control figures to be sure that the balances of the subsidiary ledgers and accounts are in agreement with the balances as shown in the General Ledger as of the date of examination.

Notes evidencing loans and the Liability Ledger should be likewise run on an adding machine and the totals compared with each other and with the control figures on the General Ledger.

Lines of credit granted by the Board of Directors and the total outstanding borrowings of each customer should be checked with the "Report of Loans Made" during the examination to be sure that all loans have been properly approved.

Once the notes and Liability Ledger have been balanced with the General Ledger control figure, a letter of confirmation should be sent to each borrower requesting him to verify the amount he owes the bank, and the collateral, if any, pledged to secure such borrowings.

Confirmation letters should also be sent to all checking account customers so that they can confirm the balance, as shown by the bank's books, with their own records.

Samples of confirmation letters and envelopes for use by the Directors Examining Committee, the bank's own auditor or outside accountants, are included as Exhibits 8 to 20.

Letters of confirmation should also be sent to a select group of savings account customers, particularly those who have had a substantial withdrawal bringing their balance, as shown by the bank's books, below one hundred dollars since the last examination, to verify the fact that the amount of money they have on deposit, as shown by the bank's books, is in agreement with the amount of money on deposit, as shown by their pass book.

Should the Directors Examining Committee want to adopt a plan of direct verification and yet hesitate, because of the time and inconvenience involved in doing the entire job at one time, it can be staggered during the year in an effective manner providing the proper procedure is adopted and adequate controls are maintained.

In order to follow a direct verification program on a staggered basis, it is necessary (so that control can be maintained and bank personnel employed in the department which is having its accounts confirmed, have no knowledge of which accounts have been or are being confirmed) to list by name on schedule sheets, all accounts open as of a certain date. (A sample schedule sheet is included in the Exhibit Section.) When the list is complete, a percentage of the accounts should be selected each month for verification. When such accounts have been selected, the balance to be verified as of the particular date, is entered in the column and a confirmation letter prepared. The reply, of course, is returnable to the special Post Office Box to which only a rep-

representative of the committee or the accounting firm has access.

In undertaking such a program, great care should be exercised so that persons employed in the department, whose accounts are being verified, have no knowledge of which accounts are, or were, selected. The list should be zealously guarded and under no circumstances *should the fact that a confirmation letter has been sent be indicated or noted on the ledger or statement sheet*. The master schedule should be kept under confidential control at all times, preferably in the hands of the director in charge of the examining committee.

Income and expense items should also be reviewed and verified. All disbursements in payment of stationery, supplies, postage, etc. should be checked out to be sure that the stationery, supplies, postage and other items of merchandise, for which funds were expended, were actually received and in the quantity and at the price for which the bank was invoiced.

Items of income, such as fees, commissions, service charges, safe deposit box rentals, interest on loans and interest on investments, should be refigured or test checked and the income supposed to be earned, traced to the respective income account.

The payroll expense of the bank should also be reviewed and scrutinized and the amount paid out to respective employees checked against the list of personnel, and the minutes of the meetings of the Board of Directors, to be sure that all salaries paid have been properly approved.

A review should also be made of all insurance policies to be sure that the bank is adequately covered; that none of the policies have expired; and that the amount of surety bonds gives the bank sufficient coverage, in view of the ever-changing conditions, such as an increase in the bank's deposit structure, greater cash exposure and other factors.

Overdrafts should also be carefully reviewed and scrutinized in detail to be certain that depositors who are permitted to overdraw their account, are not habitual offenders; that all overdrafts permitted are periodically reported to the

directors; that no "temporary loans" are buried in the overdrafts; that no "PAST DUE LOANS" are charged up to an account creating an overdraft and most important—that all overdrafts are reported as they occur in connection with the respective account and that checks, the payment of which create an overdraft, are charged to the account on which drawn and not perhaps "charged in error", temporarily at least, to an account which has a sufficient balance to take care of the "error".

In the course of the examination, a member of the committee should review signatures on "checks paid" with the Resolution File to be sure that funds belonging to corporations, associations, partnerships, etc. are being withdrawn upon the authority of persons duly and properly authorized by the directors of respective corporations, trustees of corporations and officers of associations, etc., to withdraw funds. Signature cards on personal accounts should also be checked and signatures compared with signatures on "checks paid" to be sure that the signatures are authentic.

Checks deposited should be test checked as to endorsement, and traced back to the account to which they were deposited, to be certain that all checks are credited to the account named as the payee.

The accounts with correspondent banks should be reconciled and all old outstanding drafts and other items verified and the reason for their not being paid or credited, checked and verified.

During the examination, members of the examining committee should also review the "Report of Examination" furnished by the respective supervising authorities to be sure that proper action has been taken on all items set up in the report for correction and the attention of the directors, and that recommendations and suggestions made by the supervising authorities have merited the respectful consideration and judgment of the Board of Directors.

The members of the Directors Examining Committee, during the examination, should also review all policies and the overall management of the bank. Included in their report to the Board of Directors, and possibly a condensed

version for the stockholders, should be their comments in connection with the adequacy of policies and practices governing investments, loans, interest rates, vulnerability of deposits, and exposure to liquidating loss caused by too great an investment in similar or related class and types of loans. The latter is most important.

Directors, from a conservative standpoint, should be familiar with the volume of the various types of loans and lines to be certain that the bank does not become over extended in granting credit to too many people engaged in the same line of business, or to too many people on the same or similar type of security, which, in the event of adverse business conditions, would make collection of such loans or liquidation of assets difficult.

Management should be analyzed to be certain that executives are properly carrying out the policies as set forth and approved by the directors and that all officers are capable of exercising good judgment in discharging the responsibilities of their respective office. Should laxity be discovered, steps should be taken to see that policies are enforced. Should incompetence be determined, then steps should be taken to replace the individual.

Operations and procedures should be analyzed so that the committee can point out to management any exposure points for corrective attention. By exposure points are meant those loose practices in operations and procedures through which the bank might incur a loss or encounter trouble from a safety, risk, and/or protection of assets standpoint.

No matter how conscientious a director of a bank is, he usually operates, unfortunately, under a severe handicap because of his unfamiliarity with the day by day procedures used in banks and the unavailability of a sufficient number of properly trained personnel, not engaged in bank work or the department being examined, to make a comprehensive and independent analysis of routines and procedures, and undertake the thorough verification of financial records. As a result the directors generally rely, to too great an extent, on the work conducted by the supervising authorities, during the course of their examinations, for assurance as to

"proper order." The effect of this attitude is that the examination conducted by the directors becomes perfunctory, consisting of the counting of cash and the running or test checking of some of the ledgers, or the supervision of bank employees, who actually do the work. Unless, however, the directors have had some training and experience in auditing or accounting, they cannot be certain, to any sound or satisfying degree, that the statements made and reports furnished by the employees working under their supervision are true and actually reflect the condition of the department, record or operation being examined. The many ways and means by which records and reports can be falsified are too many and obvious to mention.

On the other hand, a more conscientious job could be done if the Directors Examining Committee could acquire a reasonable working knowledge of the operations of the bank over a period of time, and follow a routine, sufficiently detailed and comprehensive, to cover all exposure points of the bank, set up to be executed by sections through the year. This presupposes, of course, that members of such committee could arrange their affairs so as to have five or six weekends or holidays during the year available for such work. While such a committee can efficiently function for a bank with resources of less than five or six million dollars, without any outside assistance, a similar committee by resorting to the ingenuity of its members and the part time assistance of several bookkeepers or clerks of the bank, who are competent in the use of machines, could extend this program to banks having resources up to twenty five million dollars.

Such work, when competently undertaken by the directors, should not be performed without reasonable compensation. Under such circumstances such "reasonable compensation" should be considered to begin somewhere around \$2.50 per hour or \$15.00 per day.

In recent years, outside of privately owned and self managed businesses, there are few well supervised businesses which do not have a periodical examination of their affairs made by outside public accountants. These examinations are made, not only for the purpose of determining the results

of their operations, from a profit and loss standpoint, for a certain period of time, but for the purpose of reporting to the directors on the competency of management as well. (Wherever in this book the word "accountants" or "public accountants" is mentioned, it refers to "Public Accountants", "Registered Accountants", "Independent Accountants", "Certified Public Accountants", and any others who are engaged in the work of auditing, accounting and examining.)

Wherever it is impossible or impractical for directors of banks to undertake the examination of their own bank as required by law, to the extent that they themselves are satisfied with the results, they should carefully consider the many advantages obtained through employing competent outside accountants to undertake such examination in their behalf.

In connection with the employment and use of outside accountants, it is well to point out certain factors which have a bearing on the results obtained. Many bankers, in considering the employment of outside accountants, are appalled at the cost of an audit. Other bankers believe the scope of the audit, as suggested by the accountant, is too extensive, with the result that a program or routine which fits the pocketbook of the bank or whim of the officers and directors—not the needs of the bank—is decided upon.

Directors who compromise themselves on such matters are derelict in their duty. Accountants who compromise themselves and are willing to undertake an assignment on such a bobtailed basis are not worthy of the bank's confidence and are a menace to their profession. We cannot hope to improve the quality of examinations or audits as long as business for business sake has prior claim over professional integrity.

The failure to provide the proper type of examination is not the fault only of the directors. It is generally acknowledged that the directors of banks will approve any type of program or routine recommended or suggested by the officers or active management of the bank. In too many instances, however, it is the officers themselves who oppose such examinations. A director of a bank whose officers are

not receptive to an outside examination should, in order to protect himself (and his family, and believe me, they bear the brunt of bank trouble also) either overrule the officers or resign.

Competent outside accountants, by using the routine as outlined in this book and comparing it point by point with the operations of the bank being examined, can develop a routine and procedure tailor made to fit the needs of the individual bank in a manner not only of credit to themselves, but satisfactory to the moral and legal responsibilities of the directors whom they represent.

Audits or examinations made by outside independent accountants, in addition, are of paramount importance to the directors in that such audits or examinations, if properly made, not only serve as a check on the internal control system followed in the day by day operations of the bank; the sufficiency of safeguards established for the protection of assets and control of liabilities; but as a basis for evaluating the sufficiency and capability of management.

In addition to examinations conducted by directors and trustees, banks are subjected to the following examinations, periodically conducted by the various state and federal supervising authorities.

National Banks are examined twice a year by examiners from the office of the Comptroller of the Currency under the supervision of the Chief National Bank Examiner of the district in which the bank is located.

State banks are examined at least once a year by examiners from the State Banking Department of the state in which the bank is chartered. State banks, in addition, if they are members of the Federal Reserve System and Federal Deposit Insurance Corporation, are examined at least annually by examiners of the Federal Reserve System and the Federal Deposit Insurance Corporation. Usually these examinations are made jointly.

National Banks, which exercise trust powers granted to them under the laws of their respective states, have their Trust Department examined by the examiners of the State Banking Department of the state in which the bank is char-

tered, which examination is usually conducted jointly, and at the time the bank is being examined by the Comptrollers Office.

As National Banks by law are members of both the Federal Reserve System and the Federal Deposit Insurance Corporation, the examination as conducted by the Comptroller Office covers the examination of the other two instrumentalities as well.

In some of the larger cities of the country, which are served by a number of banks, they have a Clearing House Association for the purpose of facilitating the collection of items between banks in the city. Sometimes to protect the bank from an over extension of credit to one person or company and to avoid duplicate borrowings, the rules and regulations of the Clearing House Association provide for periodical examinations by Clearing House Examiners.

Because of the widespread misunderstanding which has generally identified itself with the words "Examination" and "Audit", it might be helpful to give a definition of these words as generally interpreted and as used in this book.

The term "EXAMINATION" generally refers to a review and analysis of Assets and Liabilities and the ascertaining that the Assets and Liabilities of record exist.

The term "AUDIT" on the other hand, generally refers to the fact that not only do the Assets and Liabilities of record exist, but to the correctness of such Assets and Liabilities and that the figures which represent such Assets and Liabilities correctly reflect and represent the result of one or more transactions.

Any service, no matter how extensive, should not be called an AUDIT *unless* the balances of deposit accounts are directly confirmed with the depositor and the balances of liability accounts are directly confirmed with the borrower.

While the first banking laws provided for the examination of the affairs of the bank by the directors, and the banking laws as passed by the respective federal and state supervising authorities provided for examinations to be conducted by their representatives, the purpose was entirely different.

The scope of service undertaken by directors, according to the generally accepted interpretation of the law, usually consists of a combination of examining and auditing work. This type of examination as we have pointed out, falls short of the desired accomplishment, because in general, the bank directors are not trained in accounting and auditing, nor do they have the experience necessary to review the affairs of the bank to the extent that the work undertaken can be considered sufficiently thorough to be called an audit.

The scope of service undertaken by the supervisory authorities by law is designed to inquire into the supervision of the operations of the banks and examination of their affairs. Under the law they are charged with the responsibility of only:

1. Reviewing and evaluating policies and practices of the bank to make certain that the rules, regulations, by-laws, common state and federal laws with respect to banking are being carried out and enforced.
2. Appraising and evaluating the assets of the bank to be sure that they are worth the price at which they are carried on the books and that present worth is not so much less than the price at which they are carried on the books as to impair the capital of the bank.
3. Determining that no undisclosed liabilities exist which would effect the interest of the stockholders.

The fact that there is such a difference between an examination and an audit is given additional emphasis through the fact that the supervising authorities call the attention of the directors to the difference by appending a suitable phrase on the front cover of "The Report of Examination".

Unfortunately, too many bank directors look upon the examination as conducted by the federal and state supervising authorities as an audit which lulls them into a false sense of security.

By far the most satisfactory type of service is that type of audit undertaken by the bank's own audit staff, where the Auditor is:

1. Responsible to the Board of Directors alone.
2. Independent from active participation in the operations of the bank.
3. Follows a routine and schedule known only to himself, which over a period of time, completely covers all transactions which have taken place.
4. Directly verifies that such transactions are bona-fide and result from normal and legitimate business transactions.

In connection with the internal operations of a bank and audit control protection, a type of self auditing occurs, as we have pointed out, where any transaction is handled by two or more employees. Small banks which are not sufficiently large to have a full time auditor, can, by making certain changes in their daily routine and procedure, install a simple system of checking transactions and establishing controls, which in many cases, can accomplish the objective as usually set forth in a formalized internal audit program.

Large banks which have their own auditor and auditing staff, responsible solely to the Board of Directors, have little to be concerned about in respect to supervision and adequacy of controls. In such cases, however, it is very advantageous to periodically retain the services of an outside consultant or accounting firm to review the operations and systems and determine, from an independent viewpoint, where certain checks, verifications, and balances should be effected, which by comparison with the existing audit routine could determine the adequacy and coverage of the present system. This has the effect of checking on the thoroughness of the auditor, and in devising or revising a routine so that it does not become static.

Small or medium sized banks who do not either have a full time auditor or who have an auditor who has other responsibilities, and who employ the services of a public ac-

countant to, at least once a year, conduct an audit in behalf of the directors, would do well to periodically change their internal auditor so as to get the benefit of a new approach and different viewpoint.

Routines followed by a bank's own audit staff and by independent accountants are often inadequate because of short cuts which are adopted. Many auditors and accountants omit, or short cut, certain routine practices, with the result that minor phases are skipped over entirely because of: lack of time, an inadequate or untrained staff, or the failure of the accountant in charge to realize that all facets of the transaction should be subject to the same thorough scrutiny.

It is well to remember, however, that no system of auditing or systematic routine of check and verifying will, in every case, immediately disclose fraudulent methods or practices. Direct verification of loan and deposit accounts is imperative if an audit, either conducted by independent auditors or the bank's own auditing staff, is to serve its end. In addition, a thorough audit should include a verification of all income and expense items for the purpose of determining that all income earned has been properly collected and credited to the respective income account, and that all items charged to expense have been bona fide and properly authorized.

The value from direct verification arises from the fact that it will uncover many errors and possible frauds, as in most instances, the only evidence of errors, frauds or false records, is in the hands or records of the depositor, borrower, other debtor or creditor.

A system which only provides for the "checking" of the work of others and for "proving" that the control accounts are in balance by running or listing, and proving the individual accounts which make up the control total, may be an examination; it may be some type of a procedure, but—IT IS NOT AN AUDIT.

Nowhere is the saying "a chain is no stronger than its weakest link" more true than in referring to an audit. The signature which was not checked; the amount which was not verified; the date which was not questioned; the endorse-

ment which was not scrutinized—all links in a chain which could be used to bind up an embezzlement or enmesh a crook.

Defalcations and embezzlements, when they occur always reflect upon management. To effect compliance with the responsibilities of their office, directors should give careful consideration to establishing a sound audit program of routine applicable to the day by day operations of their own bank.

When confirming accounts, in order to maintain control, a special Post Office Box, separate from the bank's regular Post Office Box, should be used, to which undelivered letters sent during the course of the examination or audit, and replies received in answer to letters in connection thereto, can be directed.

This Post Office Box should be rented in the name of the bank. Authorization for delivery of letters directed to the box, however, should only be vested in a member of the committee. This same arrangement can be followed by the bank's own auditor or by outside accountants in confirming balances, although some accountants will prefer to use their own return envelope, which has the replies returned to their home office.

In mailing out confirmation letters, a standard window envelope 8¼ by 3¾, with special corner card, is used. A self addressed postage prepaid envelope 6½ by 3¾ is enclosed for returning the signed confirmation letter. Only first class postage should be used. Samples of the text used on the envelopes are shown in Exhibits 16 and 17.

The Post Office Box number on the return envelope should be the same as the Post Office Box number on the corner card of the outgoing envelope.

Application for using Business Reply Envelopes should be made to the Postmaster of the local Post Office, who will issue the permit and assign the number. Redemption is made through the purchase of postage stamps for the amount of the postage due which is computed at .04 for each envelope returned.

CHAPTER IV

Prelude To The Audit Program

One of the unfortunate aspects of crime prevention programs for banks is the general misconception of the purpose of an audit program and of the functions of a person who acts as auditor.

The popular conception of an audit program is that it is a vehicle designed to catch crooks. The conception of an auditor likewise is garbled so it is made to appear he is somewhat of a cross between a Scotland yard detective, an F. B. I. investigator and a springer spaniel. No wonder it is difficult to sell bank directors and bank officers on adopting an audit program.

The real purpose of an Audit Program should be to *PREVENT* dishonesty in a bank by surrounding financial transactions with protective devices or systems which will eliminate the *opportunity* to commit a dishonest act or make it so difficult that the end is not worth the risk.

The auditor, on the other hand, far from being a policeman or detective, should be looked upon as a helpful servant whose main purpose is to shield others from temptation and the opportunity to commit dishonest acts.

The functions of checking someone else's work to determine that work has been performed, or that a debit is owed or a credit is due, is not new. It is as old as civilization itself. In fact, it is a protective device which society has self imposed through the years to insure honesty in all types of transactions.

The progress and complications of the high industrial tempo of present day living has only increased the need for more complete and thorough checking, verifying and protecting.

Our civil government agencies constantly *check* weights

and measures to protect us against short weights and dishonest measures.

Our police force is continuously patrolling property to see that it is *protected* and that thieves are not breaking in.

Our fire department is always *examining* property to be certain that no fire hazards exist which will destroy our buildings.

Our safety patrol is periodically *testing* the brakes on our automobile, among other things, to be sure they are in good working condition and provide safe driving, not only to ourselves, but to others.

When we make a purchase at a store we usually get a copy of the charge or invoice, while the store keeps several copies, one of which it uses as a charge to our account, while another acts as an adjusting memo to inventory. This same pattern, practice, and procedure of *checking* or *verifying* is followed in nearly every transaction which takes place in our complicated business world.

As this practice of checking is recognized as a standard part of business procedure, why should there be any objection to having someone check the tellers on the cash they have under their control.

Why should people object to having someone verify the amount of money they have on deposit?

What is wrong in having someone confirm the amount of money a person has borrowed from the bank?

Fear of uncovering a concealed fraud, or fear of embarrassing someone has no place in the conscience of a banker, bank director or any person who has responsibility for financial management. More properly we should all look upon an audit program as a PREVENTIVE action and not as a police action.

If an audit program is being followed in a bank and through the following of the routine, a criminal act is discovered, then there was either something lacking or missing in the program, or there was omission or carelessness in following out instructions. No matter what it is called, there was a weakness which permitted someone, somehow, to circumscribe the protection which should have been afforded

under the program. Obviously, under such circumstances, a new program or routine should be devised and adopted which will place operating responsibility with the proper persons and constructively prevent the same crime from being perpetrated again.

In setting up an audit program, we should not lose sight of the fact that the very existence of a program acts as a protective device against criminal acts and insurance against loss. If officers and employees know someone is checking their work and reviewing the methods and practices followed in handling transactions, and that the person is alert to all phases of procedures—they are going to hesitate a long time before committing a crime.

The practice of checking is doubly effective if it is done at undeterminable times and if the procedure and routine used is being constantly changed, rearranged, modified, extended and elongated within the boundaries of the all embracing and comprehensive original program.

One of the essentials of a good audit program is to fix responsibility for executing such a program, providing of course, that the program to be followed has been carefully planned and covers the daily flow of bank operations. Another essential is to see that internal controls, when established, are properly maintained. In this connection, particular attention should be paid to the person charged with administering them.

The benefits of controls and the advantages of an audit program are rendered practically useless if the chief executive officer or the operating head of a small bank is in charge of administering them. Obviously, he runs the bank to suit himself—the personnel is subservient to him and under no circumstances would they question his “orders” or “instructions”. No program is good where the very one the program is supposed to protect has the power to “change the rules” so as to not only make the crime possible, but to set up the mechanics so that the crime will not be detected as well.

In connection with adopting a suitable program, or for setting up proper internal controls—the library of each local American Institute of Banking Chapter, the headquarters

of the National Association of Bank Auditors and Comptrollers, the American Bankers Association headquarters, have many books on the subject. The Banking Departments of the various states and the office of the State Bankers Association in respective states are only too happy to counsel with banks on this important and vital management matter. This book itself was designed to be used as a comprehensive manual by bankers, bank directors, accountants and auditors in devising a crime preventive program, tailor made to suit the needs of the individual bank.

In executing a successful program, the initial and continuing responsibility for establishing the controls and seeing that the procedures are periodically followed, must lie with the directors or their non-bank employee representative, as obviously the bank personnel are not going to be interested in "checking themselves". The extent to which any plan is successful can be measured by the degree to which the directors continue their interest and to the extent they assume their responsibility.

The developing of a proper program, the setting up of practical internal controls, the guidance of the directors, and the responsibility for seeing that the program as approved is followed, are only a few of the necessary factors to observe if a crime prevention program is to be successful and accomplish its purpose. The most important factor is in connection with the person who is to be charged with the day by day operations of the program—the Auditor.

What type of a person should be selected or hired as an auditor? Should he be young? Should he be old with many years of experience? Would it be advisable for him to be an accountant? Is it necessary that he be a college graduate?

In the first place, let us state here and now that the most important qualification is that he be human. Now, just what is meant by a person being human? By being human is meant having an understanding of human nature and a conscious realization that everyone is subject to moods, to individual likes and dislikes, to periods of despondency and gladness, to attitudes of indifference, negligence and friendliness, to times of happiness and sorrow, and, realizing these

principles, to be able to adjust or control (or perhaps both) one's own personality and actions so as to be in tune with the other person. A big order? Maybe—but after all, isn't that the type of consideration shown to anyone—by a gentleman?

In the second place, he should possess the tenacity of a bulldog, the determination of a champion; yet withall, the patience of Job so as to be able to follow a routine or procedure, no matter how "stupid" it seems, or how obvious the answer appears to be, explicitly—unless it is changed or modified in the proper and acceptable manner—by the directors themselves. A person, in other words, with a mission or purpose.

In the third place, he should have enough overall experience in banking to know how to adapt himself to changing routines and various operating procedures. He should realize there are many ways to perform each operation. This practical "on the job" knowledge should be combined with the very essential quality of common sense, judgment, and the ability to be nonchalant and calm in a crisis. In other words, one who possesses the qualifications of a real banker.

Why, we may ask, must a person who is selected as an auditor possess such qualifications? The answer lies in the types of people he deals with and must have contact with in his day by day job:

- the senior officers of his bank who have struggled to reach the top and are looked up to and respected as leading members of the community.
- the junior officers, many of whom are just getting started in the social and business life of their community and are terribly proud of any recognition which comes their way and jealous and resentful of anything which might detract from their importance or dent their little house of cards (even some senior officers have the same attitude).
- the wealthy depositor who believes he "owns" the bank because of the balances which he carries and who thinks his balance gives him the prerogative of not filling out his own deposit slip, gives verbal orders

to stop payment on his checks, and breaks all sound rules governing customer behavior, which rules were set up for his own protection.

- the important stockholder who wants to make decisions affecting the bank and who tries to impress everyone with his importance.
- the new employee who has his first job in a bank and still has that starry-eyed gaze of bewilderment and pride that at last he is a “banker”.

Need we say more!

From an efficiency standpoint, the auditor should be absolutely free from operating detail and the mechanics used in running the bank. In cases where it is unavoidable for the auditor to be free from operating detail, that is where a program is the weakest. How do you plug the leak? In a smaller bank it is difficult, yet there are duties in connection with New Business, Public Relations and Conservation of Business which could take up slack time. Someone should be doing it. On the other hand, a small bank could perhaps afford to periodically have an outside accountant come in and do a job. Even one of the directors could do a respectable job and perhaps get paid for it too.

Of course, the larger the bank, the more practical it is to divorce operations and other functions from the functions of auditor. As mentioned previously—the fact that a bank has an auditor and follows an audit program, is no assurance that a crime will not take place. No program, procedure, or routine can prevent an employee from walking out of the bank with his pockets full of cash. The auditor and the audit program, however, can *control* the amount of cash which he takes.

In the final analysis, the purpose of an auditor, providing he is the right type of a person, is *to prevent* the crime from taking place and if it does, to have routines so set up that the amount is negligible.

The recognition of the part directors play in assuming the responsibility for instituting and maintaining a crime prevention program, be it under the guise of an audit, an

examination or some other type of device, either conducted by members of the Board of Directors or the bank's own staff, is of prime importance, if the various programs for the prevention of crime in banks is to be effective. The recognition of the importance in selecting the proper person to perform the functions of auditor to be responsible for carrying out the program in its day by day operations, is likewise important in the effectiveness of the program.

In connection with such programs and selection of proper personnel to administer them, it is often helpful, and sometimes of prime importance to have some knowledge, based on experience, of the positions held by persons who commit crimes against banks, their reasons for doing so, and what form these crimes take.

Review of a representative number of cases of defalcations and embezzlements against banks, indicates that at the time of the discovery of the crime the persons who committed the crime were occupying percentagewise, the following positions.

Presidents and Vice Presidents	10.7%
Cashiers	10.8%
Assistant Cashiers	15.1%
Tellers	43.2%
Bookkeepers	20.2%
<hr/>	
	100. %

It is interesting to observe that the ratios between officers and supervising personnel and other personnel follows closely the pattern of responsibility generally found in the small and medium sized bank—one president or one vice president, one cashier, one and one half assistant cashiers or junior officers to each senior officer for supervision over every three tellers.

The low ratio between bookkeepers and supervising personnel indicates that crimes, when committed by bookkeepers are in the guise of embezzlements from accounts. This type of crime is being curtailed and more by the adoption

of audit programs and the periodical mailing of statements and cancelled checks and occasional direct verification of accounts.

The apparent high number of teller criminals to other personnel is only a reflection of the great number of minor crimes committed in medium and larger banks by processes in connection with the hold out of deposits, cash shortages and infrequent cases of forged signatures.

Although persons held certain positions at the time the crime was discovered, it does not necessarily follow that one position offered any greater opportunity to commit the crimes than any other position, because in most instances, the first step in committing the crime took place in prior years, when the person held other positions and had other responsibilities.

It should be remembered too that titles or positions do not generally provide an indication of where laxity in supervision or looseness in controls can be expected. Particularly in smaller banks, titles are awarded as a mark of service or given to provide necessary legal authority for acts performed in the name of the bank.

There are many instances, perhaps too many, where the person holding the title of cashier is nothing more than a note teller, paying or receiving teller or a flunky assistant to another officer whose title also is not indicative of the responsibility of the position. This is pointed out to emphasize the fact that it is not the position held as much as it is the character of the individual, the prevailing opportunity and the cause for temptation which influences a person to embark on a path of crime. It is this reason that we should emphasize over and over again, that the purpose of an audit program is not to catch criminals, but to set up a protective wall against the opportunity to become a criminal—and that an auditor is not a policeman, but a friend who is trying to help a weak person to avoid temptation.

All in all, the classifications of persons committing crimes against banks, rather conclusively, points out that position has little to do with crime and that the opportunity is practically the same for any position, thus leading us to the in-

escapable conclusion that an audit program and the setting up of internal audit controls, if they are to function as intended, that is, in the prevention of crime, must be applicable to ALL POSITIONS, and to ALL OPERATIONS, and to all those employees of banks who have any responsibility or connection with the operations of the bank, from janitor to chairman of the board alike.

The reasons for a person committing a crime against a bank vary almost with the individual. Usually, however, the deciding element is the thought that the crime is an "easy way out" of a financial difficulty for "the time being." I don't believe any crook, in first committing the act, intends for it to become permanent, or that the form under which the crime is finally discovered is the form in which the original crime took place.

I do not believe people are dishonest. I do not believe that people deliberately start off to steal from a bank. I am convinced that most crimes in banks start out on a "borrowing basis" to "temporarily cover" some "urgent emergency." It is only when panic takes place and it becomes difficult to retrace steps or put back the goods stolen, or the "deal" to cover up the crime fails, that the crime is detected. Let us not forget that all of the crimes we read and hear about are those which are *discovered*. How about the "temporary borrowings" which are SUCCESSFULLY repaid? There are many such cases—again a sound reason for having audit programs and internal audit controls—preventive protection.

The principal causes of people committing crimes against banks, but not in order of importance, are:

GAMBLING—The innocent bets on horses—the "sociable" crap game—the club poker take—the tip on the stock market which results in the inevitable loss of savings, which perhaps the wife has been counting on for a down payment on a home, a new car, the education of the children. Then, the attempt to "come back" and finally, the "temporary borrowing" and "perfect crime."

PRIDE AND ENVY—The gripe because an associate got a better “break”—an increase in salary, a promotion—(perhaps he earned it)—the discouragement which comes from knowing that the infrequent promotion has passed and that there is no advancement in sight for many years—the disillusionment from “bad breaks” which are taken as a personal failure—a tight money pinch—a financial crisis.—Then the easy way out, born of indifference and a “so what” attitude.

LIVING BEYOND INCOME—Keeping up with the neighbors, relatives or “friends” with whom we associate socially, hoping that the promotion we expect will come, bringing with it more salary so as to take care of the children’s education, instead of providing for it through systematic savings based on budget provisions—the inability to face a financial dilemma caused by illness, and lack of courage in making known our real financial position “for fear of embarrassment” to our doctor, the hospital, our other creditors, etc. The “borrowing” to relieve pressure of creditors.

UN SOUND SALARY AND PROMOTION PROGRAMS—The failure of bank management to provide for periodical review and grading of a person’s work, under a properly set up evaluation program, and periodical adjustments of salaries based on merit and performance. The helping themselves from the till to make the “adjustment.”

POOR EMPLOYEE RELATIONS—The negligence of supervisory personnel in banks in being even a little interested in the hobbies, homelife, children, avocations, and day by by pattern of life of those who serve under them—the prissy junior officer who thinks he “has arrived” because he has a title but who has lost the human touch in doing so—the “big shot” officer who looks down on those beneath him in rank and can’t even condescend to wish his “inferiors” a “Good Morning”—the chief executive officer, be he president or chairman of the board,

who is so busy making himself "important" and so busy trying to "impress" others that he has overlooked (or maybe no one has ever told him) the truism that *the greatness of a man is in his humility*. It's all right to talk about a Public Relations Program, *but* the real constructive action if it is to produce results, must start with your own employees.

It's *how* you treat your personnel that counts. It's being pleasant to them, considerate of them, and treating them like human beings and an important member of the organization; be they chief executive or janitor, (there is dignity in all forms of labor) that has a great bearing, to an extent no one can minimize, on whether they fail your confidence.

LACK OF HELPING HAND—All persons at some time in their life have troubles—not all of which are initially monetary. Family illness—deaths, disappointments—family discouragements—in-law and out-law trouble—children's mischievousness, be they two, twelve or twenty, and many other worries beset everyone. When a spirit of friendliness and understanding prevails when trouble comes; when there is someone to talk to about the matter and perhaps lend a helping hand, either directly or by other means, the temptation to relieve the "pressure" by "borrowing" is eased if not completely unthought of.

INADEQUATE INCOME—The failure of bank management to investigate the demands and financial requirements of their employees, and to either pay wages sufficient to enable the employee to live comfortably, or if such requirements are beyond help, to encourage the individual to seek other employment and assist him to better his position. It takes a strong character to withstand temptation especially when "only money" can solve a most pressing problem. No, it isn't fair to place such a person in the path of temptation. If he yields—whose fault?—I sometimes wonder!

PRELUDE TO AUDIT PROGRAM

The form, type, or pattern of crimes people commit against banks, are both numerous, complicated and ingenious. We refrain from detailing the many ways such crimes can be perpetrated fearing such recitation *might* possibly assist a would-be criminal in covering up a crime, give a potential criminal an idea as to *how* a crime which would help to get him out of a "tight spot" could be pulled off—or plant some ideas in a fertile mind which could later blossom out into a criminal act.

For use, however, in discussing an audit program and pointing out the avenues usually taken, so that the proper internal audit controls can be set up, most bank crimes can be classified into the following major categories:

1. Falsification of deposit records and the unauthorized withdrawal of funds belonging to a checking account or savings account customer.
2. Plugging loan records and the unauthorized borrowing of funds belonging to the bank, by forgery or use of fictitious notes.
3. Holding back, or shorting of income, such as interest on loans or investments, fees, commissions, etc.
4. Embezzling funds belonging to the bank (stockholders) by fictitious expense vouchers and invoices.
5. Stealing of cash from the vault.
6. Altering records and invoices covering the purchases and sales of securities for the bank's account or accounts of customers.
7. Falsifying investment account records.

In connection with preventive auditing, the following story, which was related several years ago in the ROTARIAN magazine, is most appropriate because it brings out in a practical manner an approach to the human element with which we must always contend. The story tells about the practice followed by an Indiana banker, who, when he hired a new teller, was accustomed to write him a little note with contents as follows:

"Handling other people's money is fraught with peril for the handler—no man is above temptation. But we are all in this struggle for decency and integrity together, and we need one another's help. So if you are ever tempted, come to me and we will talk things over. Always remember that being a person you yourself can be proud of is a thousand times more important than all the money in all the banks in the world."

It is obvious that the better approach is preventive in scope as it decreases the opportunity for committing crime, lessens the avenues of temptation, and reemphasizes the responsibility each person owes to his fellow men.

One of the best preventatives against crimes being committed or started in banks, is through the establishing of internal controls, under the proper supervision of the auditor or the directors, who should have, as one of their principal objectives, the safeguarding of assets, and the proper knowledge of, and recording of, liabilities.

Internal controls, contrary to the frequent misconception are *NOT* operating procedures but a *CHECK* on operating procedures.—They are *NOT* part of an audit function, but the establishing of rules and regulations, proofs and balances covering transactions, which under an audit program, are verified and their authenticity established.

While an audit program contains many routines which can be considered as being part of an internal control system, an internal control system should not be considered as part of an audit program, as the functions and purposes are entirely separate and distinct. The considering of internal controls and audit programs as being one and the same, results not only in a bank having neither a good internal control system or a satisfactory audit program, but in a waste of time and effort and an exposure of spots vulnerable to criminal acts.

A good internal control program usually divides itself into two distinct parts—Rules and Regulations—Proofs or Balances.

Rules and Regulations are those guides of conduct of procedure, established for the purpose of: *preventing* a per-

son from handling an entire transaction without having their work checked or proven by another person, guarding against one person exercising complete charge over an entire department, division or section without someone else exercising rights of approval and preventing one person from maintaining sole custody and control over subsidiary or major control accounts.

The principles, rules and regulations under an internal control system, as applied, generally cover the following phases of bank operation and management.

1. Compulsory annual vacation by all officers and employees, of which at least two weeks, shall be continuous, during which time, they shall not come to the bank.
2. An established procedure, under which no work in connection with reconcilements, complaints, confirmations, no matter how complicated or specialized, normally handled by a person on vacation, shall be held for his return. Any person can do someone else's work if given time and assistance. No person is indispensable.
3. An unsystematic but periodical rotation of individual and savings bookkeepers.
4. Separation of paying and receiving functions from bookkeeping and other accounting functions.
5. The establishing of a procedure under which all customer complaints shall be referred to one person who is not actively connected with operations.
6. The segregation of all inactive or dormant checking and savings accounts from the active accounts and the placing of such accounts under dual control.
7. The setting up of dual control over all blank official checks, such as cashiers checks, drafts, certificates of deposit, expense vouchers, etc.
8. The daily review and initialing by an officer, of all general ledger tickets.

9. Periodical rotation of all personnel wherever possible.
10. Periodical exchanging of cash assets between tellers under official supervision and verification of same. (Cash—cash items, etc.)
11. Frequent test checking of signatures on checks with resolutions and signature cards. Having authorization for all withdrawals from savings and checking accounts on file.
12. Substitution of the regular signature card with a card with a typed signature on all accounts whose balances are carried on the inactive or dormant ledger.
13. Approval by an officer, other than the person handling the purchasing, of all purchase orders, and the establishing of a system of approvals covering the payment of all invoices.
14. Annual review of salaries paid all personnel, together with a review of their duties and responsibilities and appraisal of their value to the bank, prior to which time, one of the senior officers has had a conversation with each employee and determined any change in the status of his domestic life, such as illness, deaths, etc. (In a larger bank this type of review should be undertaken as regular routine by the personnel department, with a report going to the chief executive officer.)

Proofs and Balances are those procedures and routines, established for the purpose of checking and determining that the work performed under the daily routine or system, balances and is correct in so far as the balance sheet operations are concerned.

The principal factors covering Proofs and Balances as applied to the internal control system, generally cover the following:

1. Periodic trial balancing and proofing, at undeterminable times of the savings and commercial ledg-

PRELUDE TO AUDIT PROGRAM

ers, by employees other than those regularly employed in the department.

2. Reconciliation of "Due from Bank" accounts by an employee other than the one who is responsible for issuing bank drafts or posting general ledger entries.
3. Periodic spot checking and verification of interest income on investments.
4. Periodical checking and refiguring of interest income on loans.
5. Periodic mailing of cancelled checks and statements to checking account customers.
6. Periodical balancing up of savings pass books at interest times and refiguring of interest paid by someone other than the person ordinarily employed in the savings department.
7. Periodical verification of merchandise received, for which an expense voucher has been issued.
8. Periodical test checking of the purchase price with the market quotations on all purchases and sales of securities.
9. Periodic verification of loans and collateral pledged by directly confirming balances outstanding and securities pledged with borrowers.
10. Periodical paying of signatures on checks drawn on checking accounts by persons unfamiliar with the signatures, necessitating the reference to the signature cards and resolutions.
11. Tracing back to the respective income account, all interest income from loans for a specific period of time.
12. Verifying, by suitable means, discrepancies in dates on deposit tickets of savings and checking accounts.
13. Prohibiting any teller **PLUGGING** his cash account at the end of the day in order to effect a balance.

14. Compulsory reporting of all cash differences, irrespective of amount.
15. Subjecting all tellers found to have a "KITTY" to investigation and dismissal.

The establishing of internal controls, while not a guarantee against crimes being perpetrated, is a forceful weapon in that it is evidence of supervision and policing, and has the effect of keeping the person, who might be inclined to commit a crime if the opportunity presented itself, off balance. This factor is magnified and increased to the extent that proofs and balance procedures are placed on a surprise basis where the timing is unknown, except to a few.

While every conscientious bank director does what he can, in keeping with prudent judgment, to see that his bank follows a sound audit program; administered by a qualified auditor, who has adopted adequate supervision over internal control factors, he realizes that no matter how extensively precautionary measures are taken, that the possibility of a crime being committed in his bank is always present. Being conscious of his responsibility to the stockholders, whom he represents, to the innocent employees of the bank whom he hires, to the customers whose needs he serves, and to the public whose favor and business he cultivates, he probably wonders just what is the right procedure to follow *in case* something happens.

As no two cases are alike, we can only generalize a suggested procedure to follow predicated on three respective premises, under which nearly all discoveries of crimes against banks are based.

1. A *suspicion* that "something is wrong."
2. A *discovery* or the acquiring of evidence or proof that "something is wrong."
3. A voluntary *confession* of a crime or confession of participating in a crime.

Whenever a person, be that person a representative of the respective federal or state banking department, the rep-

representative of a firm of outside independent or certified accountants, a customer, a director, an officer, or another employee, has a *suspicion* that "something is wrong" the only factor that is certain is that the suspicion was aroused by an *extraordinary circumstance* which is only an *indication* that something *might* be wrong. It therefore, follows that whatever caused the person to become suspicious was only a minute part of the overall picture and that an investigation should be undertaken *only* by someone with practical experience in such matters.

The procedure from here on differs, depending on the position of the person originally having the suspicion.

If the suspicion of "something being wrong" originated with a member of the staff of the state or federal banking department, unless he has instructions to the contrary, he should immediately convey his suspicion to the examiner in charge, who generally has had sufficient experience to know what to do so as to not arouse suspicion, what kind of further tests to make, and what kind and type of custodian or security measures should be applied. Should the examiner in charge not be familiar or experienced in such matters or feel inadequate under the circumstances, he should discretely communicate with his office for instructions.

If the suspicion of "something being wrong" originates with a staff member of an accounting firm retained by the directors, or a member of the bank's own audit staff, they should immediately convey their suspicions to the supervisor directly in charge of the work, who should immediately contact the director who is chairman of the Directors Examining Committee to acquaint him with the facts. The next immediate step is for the supervisor and the director in charge of the Directors Examining Committee to *jointly* contact the proper federal or state banking department office to give them the facts and request their advice as to the procedure to follow.

(It is generally an excellent policy for firms of accountants who do work for banks, to notify the office of the respective federal or state banking department, when they are

engaged to undertake some service for a bank under their jurisdiction, and to advise them of the date they expect to begin their assignment and the scope of the service to be rendered. Not only is this common courtesy, but a welcome opportunity for the supervising authorities to make an exploratory check, at the same time, in some particular phases about which they might have some question. In connection with rendering reports of examination or audit to the directors, it is good practice and custom, inasmuch as the reason an outside firm of accountants is making the examination for the directors is to comply with the provisions of the law, for them to either leave two extra copies of their report with the Directors Examining Committee for the respective federal or state supervising authority and the F.D.I.C. or ask permission of the committee to send copies direct.

If the suspicion of "something being wrong" originates with a director or officer, the best policy to follow is for them to immediately get in touch with the federal or state banking department which has jurisdiction over them, and give them the facts. Caution is advised against anyone connected with the bank making any kind of investigation, questioning any employee, or making any kind of an accusation due to the possible infringement of personal rights.

If it is felt that someone ought to investigate the matter further before going to the authorities, or question certain employees about circumstances, then it is absolutely imperative that any questioning or interrogating, in the absence of a representative from the respective federal or state banking department office, be undertaken by the bank's legal counsel, or if they do not have a counsel, by an attorney, in order to avoid any possible repercussions.

If the suspicion of "something being wrong" originates with an employee, he should, without mentioning it to anyone, advise the president of the bank or chief executive officer (if he is above suspicion) of his suspicions and reasons. If the president or chief executive officer believes there is something to the suspicion, he should proceed to contact the office of the respective federal or state banking department,

PRELUDE TO AUDIT PROGRAM

which has jurisdiction over the bank, for guidance as to procedure.

When there is definite knowledge that a crime *has* been committed or absolute *proof* or *evidence* that a crime has been committed, the office of the federal or state banking department, which has jurisdiction over the bank or the Federal Bureau of Investigation, should be immediately contacted. In case the nearest office of the F.B.I. is not known, a telephone call to the Federal Bureau of Investigation, Washington, D. C., will put you in touch with the proper party, to whom you can tell your story of what has been discovered, and ask how you should proceed. They will then notify one of their agents located locally, who has received specialized training in such matters, who will contact you and take over.

If a person who has committed a crime against a bank comes to an officer or director and wishes to confess a crime because he is "tired of worrying" or wants "to get something off his mind," the best procedure to follow is to notify the attorney for the bank *and* the office of the federal or state banking department immediately. The presence of your attorney is necessary and urgent so as to get the details of the crime written down on paper and a confession or an affidavit properly prepared and signed while the person is in the mood.

If the attorney for the bank is not available, then the chief executive officer, in a very calm manner should ask the culprit to write out the details. Give such a person all the help you possibly can and all the time they want. Don't forget they are in trouble—how much no one knows. At the moment all they want to do is ease their conscience. Be understanding—be patient—be kind BUT until the representative of the federal or state banking department office, or a representative of the F.B.I. office or someone from the U.S. District Attorneys Office comes to take over **DO NOT LET THE PERSON OUT OF YOUR SIGHT**. A person who commits a crime against a bank is no good dead, either to his family or to the bank. His help is needed to straighten out the "mess."

After a representative of the federal or state banking departments office has "taken over" and a plan of procedure has been determined, the directors should notify the insurance company of what has taken place, and what is being done. Under no circumstances, however, should the bank or its directors discuss "settlement" of the loss with the insurance company or their representative until a complete audit or other procedure, dictated by the scope of the crime, has been undertaken and a report of findings made to the Board of Directors. Only a report made by a qualified auditor will disclose the extent of the loss and most important, the future contingent liability.

Inquiry is often made, from a public relations standpoint, of the procedure to follow when a crime is discovered, in making it known or in acknowledging it to the public. Well, first of all, let us not deceive ourselves that such matters can go unnoticed or unknown by the employees, the bank's customers or the general public.

The petty gossip—the missing employee—the hearsay on the outside, are too often great exaggerations of the truth. The only sound and sensible policy to follow in such a situation is to:

1. Record the facts in chronological order.
2. Meet with the editor of the local paper and *confidentially tell him the facts*. While it is news he will respect your confidence.
3. Ask his advice on how to present the facts to the public and to help you prepare a story for release to the press by the directors. Let him put it in story form for after all that is his business. Don't forget to include in the story the name of the culprit (if known), the amount of the crime, that the person is in custody, that there will be no loss to the depositors as all deposits are insured by the F.D.I.C. up to \$10,000.—and that a thorough audit is being undertaken by (name of firm).

PRELUDE TO AUDIT PROGRAM

When the story is approved and all parties (directors, officers, F. D. I. C. and federal or state banking department) are in agreement as to what shall be said and published, *BUT BEFORE* anything is released to the public, call together all of your employees and tell them the story, as it will be released to the papers. Above all, only have one story and stick to it.

After the story hits the newstands and the day the letters of confirmation regarding balances of loan and deposit accounts are received by the customers, be sure that the president, or chief executive officer and one or two directors are conspicuous by their presence at the bank and with a smile, sincerely and calmly answer all questions in an assured manner. This kind of an attitude and reception will not only put all depositors at their ease, but, if properly handled will result in attracting new business to the bank.

CHAPTER V

Terminology Used in Bank Auditing Procedure and Charting of Accounts

One of the difficulties always experienced by man in conveying ideas and thoughts to others, has been in the language used to express those thoughts and ideas so that those to whom he was speaking would get the same concept of thought and perception of the idea that the speaker had in his mind. Another difficulty has been in connection with the misuse of words of similar meaning to convey a thought of *similar, but not like meaning*. This has been exceptionally true in connection with words referring to accounting, auditing and words used to express crimes against banks.

The National Association of Bank Auditors and Comptrollers defines ACCOUNTING as "the science which treats of the systematic record" and AUDITING as "the art of reviewing the work incidental to the records".

Webster defines AUDITING as "a formal or official review and verification of accounts".

Our discussion of terminology is not complete, however, unless in connection with bank work, we include the word EXAMINATION.

Webster defines EXAMINATION as "the act of examining; a search or investigating or the testing by appropriate methods". EXAMINATION therefore, is the term applied to the action of testing or searching.

Generally, I believe bankers and well informed laymen lean towards the definitions of auditing and examining as exemplified by the bank supervising authorities that an EXAMINATION is for the purpose of evaluating the quality

of assets; the extent of compliance by the bank with state and federal laws; and the *appraisal of the competence and integrity of management*; while an AUDIT is for the purpose of determining that the assets and liabilities exist and that the financial statements not only correctly reflect the financial condition of the company, but *represent the results of bona fide normal business transactions*.

A further refinement would result in the more explicit definitions that an EXAMINATION is conducted by examiners for the purpose of reviewing and determining that the makeup of individual figures which represent assets and liabilities as shown by the original books of entry exist; while an AUDIT is conducted by auditors for the purpose of verifying that the individual items represented by the figures of assets and liabilities are correct and reflect the results of normal business transactions.

Obviously, under such terminology, no matter what type of service was rendered, no one could consider the work undertaken as an audit unless inventories, accounts payable and accounts receivable were verified by directly confirming the outstanding balances with the debtors and creditors.

In like manner, from time to time we hear about details of a crime against a bank referred to as an EMBEZZLEMENT — DEFALCATION — MISAPPROPRIATION OF FUNDS, etc. In reading about the crime and learning about the details and circumstances, however, we come to the conclusion that these words, unfortunately, are used rather indiscriminately.

Leading grammarians and financial authorities give the following definitions with respect to these words:

DEFALCATION—The fraudulent appropriation or abstraction of money or property entrusted to a person by virtue of his employment.

EMBEZZLEMENT—The fraudulent appropriation by a public officer, or any person occupying a fiduciary capacity, of the property entrusted to him by virtue of his employment. (Embezzlement is generally considered to be a felony, depending on value, and is a statutory crime punishable by imprisonment.)

LARCENY, BURGLARY—The fraudulent appropriation of property belonging to another, by means of trespass or assault.

From analysis of these terms I believe we can come to the sound conclusion that the indiscriminate use of these words confuses the issue and leads to erroneous conclusions.

In order to clarify the situation, the word **DEFALCATION** should only be used when referring to the appropriation of funds strictly belonging to the bank, such as interest income, fictitious loans and mortgages, withholding of income and use of fraudulent or false expense vouchers or requests for reimbursement. The word **EMBEZZLEMENT** should only be used when referring to the appropriation or taking of funds from accounts in the name of and belonging to depositors.

With the same thought we could use the word **STEALING** when the funds so appropriated through an embezzlement or defalcation were used for the culprit's own benefit and the word **MISAPPROPRIATING**, when the funds so appropriated through an embezzlement or defalcation were used for the benefit of others or where the culprit did not receive any of the funds for his own use or benefit.

All in all, we help our own cause if we first of all have the same understanding of the thought conveyed by the certain word. I believe it was Plato who said "define your words and I will debate with you". This wise sage pointed out the need for having the same mutual understanding and interpretation of the word if the idea expressed by words was to be received with the proper meaning.

While both auditing and accounting are distinctly different in their purpose, scope and function, they have one common objective on which they must cooperate—prevention of crimes in banks.

This objective cannot be attained unless the mechanics of operation are properly set up and controls established to see that all operations are being followed and that rules and regulations, established to help attain the objective, are being observed.

In this connection, all types of accounting setups and auditing functions or routines evolve themselves into the distinct types of CURATIVE PROCEDURES or PREVENTIVE PROCEDURES, which are defined as follows:

CURATIVE PROCEDURES are those types of accounting methods, auditing functions or routines, which are established only *AFTER* a crime has taken place for the purpose of establishing controls to insure the bank against the *same* crime taking place again.

PREVENTIVE PROCEDURES are those types of accounting methods, auditing functions or routines through which controls are established in the accounting methods and auditing procedures followed, for the purpose of *preventing* a crime from being perpetrated.

While both types of procedures are necessary, the preventive type, which calls for formulating a sound system of checks and controls at so called exposure points, is the most practical and less expensive plan to adopt in the long run.

In connection with the determining of exposure points at which checks and controls must be established, it must be remembered that such exposure points can only be determined *after* an exhaustive analysis has been made of all operating methods, procedures and routines used by the individual bank.

Bank supervisory authorities and bankers associations for years have waged a relentless campaign to have banks adopt certain standards of auditing routine and control procedures. While their work in this connection has been commendable, it should be recognized that it is impractical to establish minimum standards, due to the differences in methods of operation as between banks, especially when such adoption is voluntary.

Minimum standards while applicable in many respects and strongly advocated by the author, can only be effective when LEGALIZED. Unless there is some "policing" it be-

comes a hit or miss program; followed, if convenient—or if it doesn't take too much time. Such procedures or practices have the same effect from a protective standpoint as would occur if a householder who expected to be away from home for a long time, told neighbors only the downstairs windows in his home were locked, when everyone *supposed* all windows in the house were locked.

All banks have distinct variations in their operating methods, procedures and routines, each of which must be analyzed and checked, and degree of exposure determined before devising the proper and effective control. The establishing of controls in itself is not sufficient. It must be remembered that controls once established are only effective as long as the operating methods, procedures and routines, over which the controls were established, remain the same. Every change in an operating method or procedure or routine requires a review to determine if a corresponding adjustment is required in the control setup and audit routine.

In previous chapters we have been referring to audit programs and audit procedures. In this chapter we have been referring to controls and types of accounting. Now, we will begin to outline just where the types of accounting procedures and controls apply and how the important functions of an audit program protect a bank against crime.

A bank cannot have an audit program unless it has something to audit. The something it has to audit are, of course, the various classes and types of accounts set up in their accounting records, which reflect the financial conduct of the business.

Accounting records, usually maintained in the accounting department or by the General Bookkeeper, are of two types: Asset or Resources Accounts and Liability Accounts.

Classes or types of accounts which represent property or interests, which are owned by the bank, are known as Asset or Resources Accounts.

Classes or types of accounts, which represent properties or interests which the bank owes others, are known as Liability Accounts.

Such accounts or records, usually maintained on ledger sheets, are established or set up as a place to correctly post or record by accounting procedures, details of financial transactions.

Accounting procedures are the ways and means used to record financial transactions in accounting records. These ways or means are subjected to review and analysis for the purpose of setting up or establishing internal controls.

It is these recorded results of financial transactions, as disclosed through accounting records, which are subjected to review, analysis and verification under an Audit Program.

Before determining the scope of an Audit Program, it is necessary to review and analyze the accounting records and determine if the existing system of accounting lends itself to verification or the establishing of a control system of checks and balances. Most important, we must be certain that the details of all transactions are correctly indexed in the accounting records and that the result of financial transactions are correctly reflected, through the accounting records, in the Balance Sheet, Statement of Condition and Profit and Loss Statement. Another important phase to analyze is whether or not major and subsidiary accounts and records are set up so as to properly reflect movements and changes.

It should also be determined if the accounting system adequately provides for proper segregation of the different types or values and classes of accounts based on Income Tax and the reporting requirements of the various federal, state and other supervising authorities.

Last, but not least, the accounting system should be reviewed to determine that similar accounts are not commingled so as to make it difficult to determine, if, when and how, exposure to a crime exists.

Every account set up on the accounting records is for the purpose of having a fixed place in which to record a certain type of information pertaining to a certain transaction, or a change in the balance of an account and the reason for the change. Under the double entry bookkeeping system,

every debit against an Asset account increases it while a credit against a Liability account similarly increases it. Likewise, every credit to an Asset account decreases it, while a debit against a Liability account decreases it. Debits and credits to corresponding Asset accounts increase and decrease respective accounts, while credits and debits to corresponding Liability accounts increase or decrease them similarly.

In order to properly know what type and class of accounting records a bank should have, it is first necessary to analyze the types and kinds of transactions they handle and the nature of their business. Once this has been determined, then the set up and nomenclature of accounts in which the results of financial transactions are to be recorded, should be decided upon. This set-up and nomenclature of accounts is known as a Chart of Accounts.

As it is necessary to have a Chart of Accounts in order to have an Audit Program, a detailed and comprehensive chart of accounts, including many of the subdivisions of principal control accounts, is set forth in Exhibits 21, 22, 23 and 24.

Attention is called to the use of numbers in addition to the title of the accounts. Use of numbers in heading up general ledger tickets, facilitates the preparation of tickets and, if the practice of using numbers is established, simplifies intersorting and classifying of tickets effecting the same accounts.

In using numbers, generally the uneven digits, such as 1-3-5 etc. are used for Asset Accounts, while the even digits, such as 2-4-6 etc. are used for Liability Accounts. Care should be used in allocating numbers under a numerical system so as to leave some numbers unassigned in the various classifications, so as to allow for expansion and the including of additional accounts.

The use of suffix numbers following a control account digit such as 11-1; 11-2; 11-3 gives innumerable possibilities to expansion of the system as does the use of alphabetical letters A-B-C etc. in connection with identifying subsidiary accounts.

Where numbers are used, numbers ending in 5 should be assigned to major asset control accounts and numbers ending in 0 assigned to major liability accounts as an aid in classifying or segregating accounts.

The Chart of Accounts, shown in Exhibits 21-22, shows both the names of control and subsidiary accounts which would be used under a cash basis and under an accrual basis and accounts used if a bank had one or more branches. Obviously, whichever basis is used by the individual bank, will require the elimination of accounts which do not apply under the circumstances.

The classification of accounts, when decided upon, can also be used in detail, as headings or indexes for the Daily Statement of Condition.

Description of respective accounts, their purpose and-or function, are included under their proper classification in the Audit Routine Section beginning with Chapter VII.

Many of the major and control accounts represent a number of subsidiary accounts kept in separate ledgers for control and information purposes. Such accounts may consist of from one to several thousand individual accounts, each with their own ledger sheet on which the details of all transactions effecting that account are entered.

Two of the most important control accounts on which subsidiary accounts are maintained in detail are the Income and Expense control accounts. These accounts, which should have a separate sheet or segregated section for each class of expense for Profit and Loss, Financial Accounting, Cost Accounting, and tax purposes, together with their numbers, are shown in Exhibits 23 and 24 in the Exhibit Section.

CHAPTER VI

The Audit Program

The method of procedure and check list of the routine to use, either as a guide or as pattern from which to devise an Audit Program, tailor made to fit the needs of the individual bank, are set up in this chapter.

In keeping with the extensive detail set out in the Chart of Accounts, the Audit Program also provides for the auditing of those major or subsidiary accounts which might be applicable only to certain banks. It is intended that each bank adopt from the routine only those sections and procedures pertinent to the circumstances.

The Audit Program, as presented for instruction and study purposes, is set up under chapter headings representing each major grouping of control accounts as shown on the Chart of Accounts, plus the routine to be followed in auditing certain services, functions or operations, in which the bank has an undisclosed or unrecorded responsibility or contingent liability.

The text of each chapter, for informative, instructional and analysis purposes, is arranged as follows:

- A. Schedule of each control or subsidiary account together with a brief description of the purpose of the account in the operation of the bank.
- B. Exhibits of recapitulation, transcripts, charts, summary sheets, or schedules necessary or required in auditing the respective sections.
- C. Procedure for the auditor, or one of his assistants to follow in auditing or examining the particular account or department in which the account or accounts are maintained.

- D. Questionnaire which should either be used by the auditor in reviewing the work of the assistants who actually performed the work or executed the particular routine, or by the assistant himself, as a guide and check list in executing the routine covering the particular group of accounts.

It should be remembered that an Audit Program, if properly devised, is not only the bond of security which safeguards the operations of the bank, but if competently and conscientiously followed, is the assurance of the responsibility of directors to the stockholders, depositors and the public; and the protection of the honesty and integrity of all bank personnel.

CHAPTER VII

Audit of Cash and Due from Bank Account 25

25	TOTAL CASH AND DUE FROM BANKS.....	
1	Cash	\$.....
	Cash on Hand—Reserve	\$.....
	Cash on Hand—	
	Tellers (Exhibit 25)	\$.....
	Cash Items—	
	Tellers (Exhibit 26)	\$.....
3	Exchanges for Clearings	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
7	Clearing Between Main	
	Office and District Offices	\$.....
9	Cash Items in Transit	
	Corres. Banks	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
11	Cash Items in Transit—	
	Other Banks	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
13	Cash Items in Process of	
	Collection	\$.....
17	Due from Federal Reserve	
	Bank	\$.....

AUDIT OF CASH

19	Due from Domestic Banks	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
	..... Bank	\$.....
21	Due from Foreign Banks	\$.....
	..... Bank	\$.....
	..... Bank	\$.....

The control account *Total Cash and Due From Banks* represents the total amount of cash which a bank keeps on hand to take care of their normal requirements, or as part of a reserve required by law, based on a percentage of their time and demand deposits; items which have been exchanged for cash and which are held pending redemption or a further exchange for cash; checks deposited with or cashed by the bank in the process of collection; funds which the bank keeps on deposit with other local, domestic or foreign banks.

1 CASH

Cash Account represents the total of *Cash on Hand-Reserve*, *Cash on Hand-Tellers*, and *Cash Items-Tellers*, as detailed.

Cash on Hand Reserve represents the amount of currency or coin which the bank keeps as a reserve, in a separate vault or compartment, usually under dual control. Generally, tellers keep a minimum amount of cash in their cage, transferring the excess to the head teller or other designated person who places it in reserve. Reserve cash is likewise maintained under minimum and maximum requirements with the excess being transferred to a correspondent bank or Federal Reserve Bank, where it is available for, or converted into investments or other purposes.

Cash on Hand-Tellers represents the total amount of currency and coin which the tellers or other employees have under their control for use in their daily operations, such as cashing checks, etc.

Cash Items-Tellers represents the total amount of items which have been exchanged for cash and which are tempo-

rarily being held for exchange into cash or its equivalent, such as coupons cashed and not yet entered for collection; checks previously cashed and not yet entered for collection; checks previously cashed for a non depositor, which have been returned for insufficient funds or other reason and temporarily held pending pick up and exchange for cash by the payee or endorser; cash expense disbursement held pending a charge to expense, and other similar items.

3 *EXCHANGES FOR CLEARINGS*

Exchanges for Clearings Account represents the amount of items cashed by, or deposited with, the bank drawn on other local banks, which will be exchanged for cash or its equivalent during the current or following day.

7 *CLEARINGS BETWEEN MAIN OFFICE AND DISTRICT OFFICES*

Clearings between Main Office and District Offices Account represents the amount of items, cashed by, or deposited with, the main office drawn on the district offices and items cashed by, or deposited with, the district offices and drawn on the main office, which will be exchanged for cash or its equivalent during the current or following day.

9 *CASH ITEMS IN TRANSIT — CORRESPONDENT BANKS*

Cash Items in Transit—Correspondent Banks Account represents the amount of items cashed by, or deposited with, the bank drawn on banks located in various sections of the country, which have been forwarded to one of the correspondent banks for collection and credit.

11 *CASH ITEMS IN TRANSIT—OTHER BANKS*

Cash Items in Transit—Other Banks Account represents the amount of items cashed by, or deposited with, the bank drawn on a bank located in another section of the country which have been forwarded to them for collection and payment, either by a draft drawn on a reserve city or sectional Federal Reserve Bank or by a credit to an account maintained with a correspondent bank.

13 CASH ITEMS IN PROCESS OF COLLECTION

Cash Items in Process of Collection Account represents the amount of coupons, drafts and other cash items drawn on other banks, which are out to them for collection because their form or terms require special handling or presentation in a special manner.

17 DUE FROM FEDERAL RESERVE BANKS

Due From Federal Reserve Bank Account represents the funds maintained on deposit with the district Federal Reserve Bank by a member bank of the Federal Reserve System either in the reserve account or the collection account. All items in the process of collection are deposited first to the collection account and when collected, are transferred to the reserve account.

19 DUE FROM DOMESTIC BANKS

Due from Domestic Banks Account represents the funds on deposit with various correspondent banks located through the United States available for use. (Items sent to them for collection are usually carried under "Cash Items in Transit—Correspondent Banks" or "Cash Items in Process of Collection" until collected, when the proceeds are transferred to the regular account.)

21 DUE FROM FOREIGN BANKS

Due From Foreign Banks Account represents the funds on deposit with various correspondent banks located outside continental United States available for use. (Items sent to them for collection are usually carried under "Cash Items in Transit—Correspondent Banks" or "Cash Items in Process of Collection" until collected, when the proceeds are transferred to the regular account.)

"Available for use" means—Collected Funds—available for transfer to another bank, available for investments—available for transfer for use of a customer by means of a draft drawn on the bank.

Procedure:

1. Seal all cash in vault compartments.

BANK AUDITING

2. Take possession, or place under control, all cash and cash items held by tellers.
3. List dollar balances of all foreign currency or coin and compare with general ledger control account. (See section on the Foreign Department for further detail.)
4. Instruct the Proof or Clearings Department to hold all Cash Letters or Collection Letters containing checks drawn on other banks, which are being sent for collection.
5. List all checks of ———— and over, by date, endorsement, maker, bank on which drawn, and amount; and trace each item back to the source. (Cash or deposit)
6. Prepare a confirmation letter covering the total amount due from each bank through the exchange of local items (clearings), which should be sent to each bank for verification purposes under index number 4.
7. Prepare a confirmation letter to be sent to each bank, which has open and outstanding, as of date of examination, items in transit or items sent for collection under index number 9-11 including those items sent as of date of examination.
8. Send a letter to all domestic and foreign banks with which the bank maintains an account, requesting a statement of the bank's account as of the close of business on the day of examination.
9. Check out and prove with the general ledger controls, the totals of all cash exchanges or cash letters to other banks or any lists of items sent for collection as of the date of examination.
10. As the tellers balance, all cash, including vault cash, should be counted and verified in the presence of the teller, listing all denominations on the summary sheet, as shown in Exhibit 25, and listing all cash items in detail, as shown in Exhibit 26. Upon completing, the teller should receipt for cash

- and cash items on the summary sheets. Summarize on recapitulation sheet, as shown in Exhibit 26.
11. Review and initial all general ledger tickets originating in the cage before passing on to the Proof Department or General Bookkeeper.
 12. Check deposit slips for prior dating and date alteration and verify correctness of date of deposit.
 13. Intercept all Return Items drawn on banks, if located in the same town, for two days following the examination: if drawn on other banks in other towns in the United States for six days following the examination; if drawn on foreign banks, for ten days following the examination or directly confirm by Air Mail.
 14. Trace all Return Items to their source to determine validity.

Questionnaire:

- A. Does each teller have his own safe or cash compartment in the main vault?
- B. Is it under combination lock?
- C. Does anyone else have the combination?
Who?
- D. Does any teller have the combination to any other lock?Who and what compartment?
.....
- E. Are all tellers who have cash in their possession located in cages?List those who are not located in cages.
.....
- F. What protection do tellers and those listed above have? (Alarm system—cage—locked door)
.....
- G. Do tellers keep their cage doors closed at all times?
- H. Do the tellers lock the doors when leaving the cage?

BANK AUDITING

- I. Are the doors of the self closing kind?
- J. Are the locks in good repair?
- K. Are the cash drawers in each cage equipped with a lock? Is the lock in working order?
- L. Do the tellers lock their currency in the drawer when leaving the cage? Explain if answer is no.
- M. Is currency and coin kept in drawers where it is not accessible to someone through the windows with the aid of a stick or other device? Explain if answer is no.
- N. Do the tellers initial all entries in the passbook in ink?
- O. Do the tellers stamp all deposit slips with their tellers stamps?
- P. Are all deposits received during banking hours put through on the day received? Explain if answer is no.
- Q. Are deposits slips prior dated? List exceptions.
- R. Are there a number of customers who habitually make their deposits after hours? List and describe by name, type of item deposited (cash, checks—cash and checks, etc.)
- S. Do the tellers carefully watch endorsement on checks deposited?
- T. Do the tellers accept for deposit to an account of an individual, checks which are payable to companies or corporations?If so, are the acceptances of such deposits properly authorized?Comment
- U. Do the tellers cash checks for individuals payable to corporations or companies?Is

AUDIT OF CASH

proper authorization on file?Comment
.....

V. Do all paying and receiving tellers keep a file
on "Stop Payment Orders"?Comment
.....

W. Are they in alphabetical order?

X. Is reserve cash under single or dual control?
Comment

Y. Is a record kept in the accounting department
showing, by tellers, their cash differences?
If so, prepare a list of cash differences, both long
and short, for

Z. Do any of the tellers have in their possession, or
make use of a "Kitty"?.....
List and comment.

CHAPTER VIII

Audit of Loan and Discount Accounts 65

TOTAL LOANS AND DISCOUNTS 65	\$.....
27 Time Loans Sec.—Marketable Coll.	\$.....
27-1 Time Loans Sec.—Other Coll.	\$.....
27-2 Time Loans Unsecured	\$.....
29 Demand Loans Secured Marketable Coll.	\$.....
29-1 Demand Loans Secured Other Coll.	\$.....
29-2 Demand Loans Unsecured	\$.....
31 Discounts	\$.....
33 Farm or Agricultural Loans	\$.....
39 Dis. Sight Dr. in Process of Coll.	\$.....
41 Construction Loans, Conventional	\$.....
41-1 Const. Loans Under FHA Committment	\$.....
43 FHA Title II Loans 4½%	\$.....
43-1 FHA Title II Loans 4¼%	\$.....
43-2 FHA Title VI Loans	\$.....
43-3 FHA Loans Offered for Sale	\$.....
43-4 Veterans Loans	\$.....
43-5 FHA Title I Loans	\$.....
47 Conventional R. E. Mtg. Loans	\$.....
49 Loans to Auto Dealers	\$.....
51 Discounts to Auto Dealers	\$.....
53 Installment Loans—Personal	\$.....
53-1 Installment Loans—Automobile	\$.....
53-2 Installment Loans—Appliance	\$.....
57 Overdrafts	\$.....
59 Bills of Exchange	\$.....
61 Payments made under L of C	\$.....
63 Acceptances	\$.....

The control account *Total Loans and Discounts* represents the total outstanding balances of the various types and classes of loans in which the bank has invested stockholders' and depositors' funds. They are separated into the following various classifications for analysis and control purposes, according to security, terms of payment, and purpose.

27 TIME LOANS SECURED — MARKETABLE COLLATERAL

Time Loans Secured — Marketable Collateral Account represents the total outstanding balances of loans to individuals, partnerships and corporations, payable at a fixed time, secured by a pledge of bonds or debentures, or certificates of stock duly endorsed or assigned to the bank, issued by corporations whose securities are listed on one of the recognized security exchanges where the value can be currently determined and securities disposed of, if necessary.

27-1 TIME LOANS SECURED—OTHER COLLATERAL

Time Loans Secured—Other Collateral Account represents the total outstanding balances of loans to individuals, partnerships, corporations, payable at fixed time by a pledge of bonds or debentures or certificates of stock duly endorsed or assigned to the bank, issued by corporations whose securities *are not listed* on any recognized security exchange and which only have a local or limited market.

(In such cases, it is sometimes customary to make such loans *only* if accompanied by an independent bid or purchase agreement.)

Other collateral also include notes, mortgages, pledges of accounts receivable, cash surrender value of life insurance policies, warehouse receipts, live stock liens and similar documents representing a lien against value.

27-2 TIME LOANS—UNSECURED

Time Loans—Unsecured Account represents the total outstanding balances of loans to individuals, partnerships and corporations for current business operations and other purposes based on their financial statement, character or integrity, payable at a fixed time.

29 DEMAND LOANS SECURED — MARKETABLE COLLATERAL

Demand Loans Secured, Marketable Collateral Account is the same as Time Loans—Secured, Marketable Collateral Account, except that payment of the loan is due on notice and demand for payment, instead of at a specified time.

29-1 DEMAND LOANS SECURED — OTHER COLLATERAL

Demand Loans Secured—Other Collateral Account is the same as Time Loans—Secured—Other Collateral Account, except that payment of the loans is due on notice and demand for payment, instead of at a specified time. Included in this classification are loans to brokers and dealers in securities known as Brokers Loans, and day loans made to members firms of leading stock exchanges under terms of the exchange and regulations of bank supervising authorities, known as call loans.

29-2 DEMAND LOANS UNSECURED

Demand Loans Unsecured Account is the same as Time Loans Unsecured Account, except that payment of the loan is due on notice and demand for payment, instead of at a specified time.

31 DISCOUNTS

Discounts Account represents the total outstanding balances of drafts accepted by drawees, other than the bank, and other drafts discounted to maturity by the bank, drawn on customers of the bank or on others whose credit standing justifies the accommodation.

33 FARM OR AGRICULTURAL LOANS

Farm or Agricultural Loans Account represents the total outstanding balances of loans (except loans on real estate equities) made to farmers or those engaged in agriculture, for the purpose of financing the purchase of cattle for feeding purposes, the purchase of seed for planting or other current farm operating purposes.

39 *DISCOUNTS—SIGHT DRAFTS IN PROCESS OF COLLECTION*

Discounts—Sight Drafts in Process of Collection Account represents the same class of loans as are carried under Discounts, except that drafts carried in this category are payable on presentation. Loans in this classification are only carried on the books from date of issue until merchandise, against which the draft was drawn, is delivered when payment is made.

41 *CONSTRUCTION LOANS—CONVENTIONAL*

Construction Loans—Conventional Account represents the total outstanding balances of advances, without U. S. Government Guarantee, made against equities in residential or business real estate properties in the process of construction. Generally, such loans are made to mature within ten years with various repayment provisions. Common practice is for the bank to make advances to contractors against waivers of lien for work performed under a contract. When the project is complete, the advance account is then closed and the loan transferred to the Conventional Real Estate Loan Account.

41-1 *CONSTRUCTION LOANS UNDER FHA COMMITMENT*

Construction Loans under F.H.A. Commitment Account represents the total outstanding balances of advances, made by the bank on equities in residential real estate properties, in the process of construction, against a loan commitment of the Federal Housing Authority, under Title II of National Housing Act, guaranteeing payment of principal and interest. Under F.H.A. guarantee, the advances to contractors are only made however, after F.H.A. inspection and approval of work performed.

43 *F.H.A. TITLE II LOANS*

F.H.A. Title II Loans Account represents the total outstanding balances of first mortgage real estate loans, made by the bank against equities in residential real estate guaranteed by the Federal Housing Administration under Title II of the National Housing Act.

43-2 F.H.A. TITLE VI LOANS

F.H.A. Title VI Loan Account represents the total outstanding balances of first mortgage real estate loans, made by the bank on 1 to 4 family dwellings or on housing projects for veterans under the war Housing Act, which loans are guaranteed by the Federal Housing Administration under Title VI of National Housing Act.

43-3 F.H.A. LOANS OFFERED FOR SALE

F.H.A. Loans Offered for Sale Account represents the total outstanding balances of F.H.A. Title II loans owned by the bank, which have either been removed from the bank's portfolio on trust receipt, or submitted by name and description memo, to prospective purchasers for inspection.

43-4 VETERANS LOANS

Veterans Loans Account represents the total outstanding balances of loans, made by the bank to veterans under the G.I. Bill of Rights, for the purpose of purchasing or repairing of homes, business properties, farms; buying a business; obtaining working capital for a business, etc., guaranteed by the veterans Administration.

43-5 F.H.A. TITLE I LOANS

F.H.I. Title I Loans Account represents the total outstanding balances of loans, made to home owners for the repair, improvement, alteration of their homes, 90% guaranteed by the Federal Housing Administration under Title I of the National Housing Act.

47 CONVENTIONAL REAL ESTATE MORTGAGE LOANS

Conventional Real Estate Mortgage Loans Account represents the total outstanding balances of first mortgage real estate loans against equities in residential or business properties. Conventional mortgages are without government guarantee and are usually made for shorter periods and different maturities of repayment than those made under the National Housing Act.

49 LOANS TO AUTO DEALERS

Loans to Auto Dealers Account represents the total outstanding balances of loans to automobile dealers secured by chattel mortgages on new and used automobiles on their floor, in their car lots, in warehouses or in transit.

51 DISCOUNTS TO AUTO DEALERS

Discounts to Auto Dealers Account represents the total outstanding balance on notes which the bank has discounted for auto dealers, which they have taken in from purchasers as part payment on the price of an automobile.

53 INSTALLMENT LOANS—PERSONAL

Installment Loans—Personal Account represents the total outstanding balances of loans to individuals repayable in monthly installments, either secured by a wage assignment, certificate of guarantee or bearing the signature of a co-signer or endorser.

53-1 INSTALLMENT LOANS—AUTOMOBILE

Installment Loans—Automobile Account represents the total outstanding balances of loans to individuals repayable in monthly installments, secured by a chattel mortgage against the equity in a new or used automobile.

53-2 INSTALLMENT LOANS—APPLIANCES

Installment Loans—Appliances Account represents the total outstanding balances of loans to individuals repayable in monthly installments, secured by a chattel mortgage against the equity in a household appliance, such as a radio, television set, refrigerator, deep freeze, stove, washing machine, etc.

57 OVERDRAFTS

Overdrafts Account represents the total outstanding balances of debit balances in deposit accounts of customers, created by payment of checks in excess of the credit balance maintained.

59 *BILLS OF EXCHANGE*

Bills of Exchange Account represents the total outstanding balances of advances against drafts with securities attached (brokers) and drafts with shipping documents attached, (Bills of Lading) of which the face amount is on an interest bearing basis.

61 *PAYMENTS AGAINST LETTERS OF CREDIT*

Payments against Letters of Credit Account represents the total outstanding balances of drafts paid for customers under Letters of Credit, which have not either been charged to the account, or retired through borrowing arrangements.

63 *ACCEPTANCES*

Acceptances Account represents the total outstanding balances of drafts drawn against the invoiced price of current shipments of merchandise (known as Trade Acceptances) accepted by the drawee and discounted to maturity by the bank.

(As installment, consumer credit or personal loans are sometimes handled in a separate department, the procedure and questionnaire section for loans "repayable in installments" is set up separately.)

Procedure:

1. Seal up, or take control of, all cash, notes and collateral.
2. Assign an assistant to execute the routine.
3. Balance all notes in file and in the process of collection in each classification with the respective liability ledger control account.
4. Run and balance the individual liability ledgers and check the totals of the individual control figures with the general ledger control figures.
5. Review all new and renewal notes for a period of ----- days to establish the fact that notes were properly drawn, accompanied by required supporting resolutions, authorizations and documents; and officially approved.

LOAN AND DISCOUNT ACCOUNTS

6. Test check notes of \$ ----- and over in each classification against the liability ledger as to correctness of date, interest rate and maturity, etc. List exceptions.
7. Check out all the collateral with the collateral register, listing any exceptions. It should be determined if all special papers, such as powers of attorneys or authorizations, properly executed deeds, etc., are present and accounted for, and if trust receipts are carried as collateral, that they are in proper order.
8. Verify by direct correspondence any loans out to attorneys or others for collection. Prepare a list of such items.
9. Test check all loans \$ ----- and over made the last ----- days for proper authorization of the Credit or Loan Committee. Make a list of all exceptions.
10. Test check signatures in the collateral register with signature cards of those withdrawing securities.
11. Test check a selected list of loans in each classification to determine the authenticity of the signature and that proper borrowing resolutions, required under the circumstances, are on file, particularly in connection with borrowings of corporations and notes signed as attorney in fact or under power of attorney.
12. Review credit files on loans \$ ----- and over to be sure that loans are being reviewed in conformance with loan policies and instructions. List exceptions.
13. Prepare a list, Exhibit 29, of all loans in each classification which are past due as of the date of examination.
14. List for attention, all demand loans of six months duration and over.
15. List all loans and collateral to be directly verified on tally sheets, Exhibit 27, and have confirmation letters prepared.

BANK AUDITING

16. Check out real estate mortgage loans of the various types as to proper approvals, sufficiency of insurance, delinquency as to payments of principal, interest, taxes, etc. List exceptions.
17. Prepare a list, Exhibit 28, of all overdrafts as of the date of examination, by date, name, authority and amount, with remarks as to frequency.
18. Review bookkeepers' trial balances; compare with ledger sheets and establish the fact that all overdrafts were reported.
19. Examine all items charged against an overdrawn account for validity. Determine authenticity of signature and send out overdraft notices.

Questionnaire:

- A. Is collateral held under dual control?
Who has access?
- B. Are receipts issued for all collateral deposited?
- C. Is the collateral register properly kept?
- D. Is the liability ledger for each classification of loans properly kept and posted daily?
- E. Have proper notations been made in the credit files as to authorization of loans by the credit, loan or other committee?
- F. Have proper notations been made in the credit file setting up guidance lines or lines of credit for borrowing customers? If not, list exceptions.
- G. Have any loans been made by an officer in excess of his loaning limitations? List exceptions.
- H. How often are demand loans submitted to the directors or to the head of the respective loaning divisions or the credit loan, or other committee for review?

LOAN AND DISCOUNT ACCOUNTS

- I. Is all interest collected monthly on demand loans?
 Explain exceptions

- J. Is there any demand interest past due?
 Prepare list.
- K. Are signatures on renewals and on new notes compared with signatures on file? List exceptions.

- L. Are new or renewal notes initialed as to authenticity and approval by an officer or designated person? List exceptions.

- M. Are certain checking accounts habitually overdrawn? List.
- N. Do customers who are frequently permitted to overdraw their accounts have guidance lines or lines of credit set up?
- O. Who approves overdrafts?
- P. Are any overdrafts approved by officers in excess of their respective authorized loaning limit or authority? List exceptions.

- Q. Are customers permitted to draw checks against uncollected funds? List

- R. Are customers who are permitted to overdraw their accounts also permitted to draw checks against uncollected funds? List

- S. Are written appraisals, insurance policies, deeds, in connection with real estate mortgage loans on file? List exceptions

- T. Are all real estate mortgage loans properly approved? List exceptions.

BANK AUDITING

- U. Are all payouts against construction loans, accompanied by properly executed waivers of lien, properly approved and within contract estimates?
List exceptions.

Procedure: Installment Loans

1. Seal or take control of all cash and notes.
2. Assign an assistant to execute the routine.
3. Run and balance the individual liability ledger or cards and check individual control figures with the general ledger control figures.
4. Have all payments or deposits received during the day of examination posted. Test check payments to proper accounts.
5. Balance all notes in file and in process of collection with the liability ledger control account for the respective class of loan.
6. Prepare list of all loans having three or more installments past due.
7. Test check loans \$ and over for proper loaning authority. List exceptions.
8. Test check loans secured by a pledge of a savings account to determine if proper "hold" notation was made on the savings ledger sheet. List exceptions.
9. Check out all securities, etc., pledged as collateral as to order, proper endorsement, etc. List exceptions.
10. Verify, by direct correspondence, all notes out to attorneys for collection. Make list of such items.
11. Review loans \$ and over for proper authorization and approval of the credit and loan committee. List exceptions.
12. Test check signatures on loans with other available sources of confirmation, such as signature cards, etc.
13. Test check notes made during the last days for official approval. List exceptions.

14. Prepare a list of loans to employees, showing balances outstanding as of date of examination.

Questionnaire: Installment Loans

- A. Is collateral held under dual control?
Who has access?
- B. Is all collateral pledged properly recorded?
List exceptions.
- C. How frequently are lists of past due loans submitted to the Board of Directors?
- D. What procedure is followed in following up delinquencies?
- E. What procedure is followed daily for obtaining approval of new loans made?
- F. Have any loans been made by the officers in excess of their loaning limit? List
.....

CHAPTER IX

Audit of Bonds and Investments

Account 95

95	TOTAL BONDS AND INVESTMENTS	\$.....
67	U. S. Govt. Bonds—Unpledged	\$.....
67-1	U. S. Govt. Bonds—Pledged	\$.....
69	U. S. Govt. Notes—Unpledged	\$.....
69-1	U. S. Govt. Notes—Pledged	\$.....
71	U. S. Govt. Ctf. of Indebtedness— Unpledged	\$.....
71-1	U. S. Govt. Ctf. of Indebtedness— Pledged	\$.....
73	U. S. Treasury Bills	\$.....
77	Other U. S. Govt. Obligations, Direct or Guaranteed	\$.....
79	State Obligations—Unpledged	\$.....
79-1	State Obligations—Pledged	\$.....
81	County Obligations—Unpledged	\$.....
81-1	County Obligations—Pledged	\$.....
83	Municipal Obligations— Unpledged	\$.....
83-1	Municipal Obligations— Pledged	\$.....
87	Railroad Bonds—Debentures	\$.....
89	Utility Bonds—Debentures	\$.....
91	Federal Reserve Stock	\$.....
93	Other Bonds—Notes—Debentures	\$.....

The control account *Total Bonds and Investments* represents the total outstanding amount of funds belonging to the stockholders and depositors of the bank, invested in the various types and classes of bonds and securities of the federal, state or local municipal governments, fully or partially

guaranteed; and in bonds and debentures of public utility, railroad and other companies, whose securities, under the law, are eligible and qualified for investment in bank funds.

Because of eligibility and use as collateral security for deposits of the federal, state and municipal governments and their instrumentalities, securities are segregated into the following classifications:

67 *GOVERNMENT BONDS—UNPLEDGED*

U. S. Government Bonds Unpledged Account represents the book value of the bank's investment in bonds of the federal government; which are due at a stated future date (over year from date of issue) and bear a stated rate of interest payable on fixed dates; which are free and not pledged to secure deposits.

67-1 *U. S. GOVERNMENT BONDS—PLEDGED*

U. S. Government Bonds Pledged Account represents the same type of security as described in 67, except they are pledged to secure deposits. (They are deposited on trust receipt with another bank or with the treasurer of the state, county or municipal government, to secure deposits of such state, county or municipal government; or with the Federal Reserve Bank to secure deposits of the federal government or with the treasurer of the respective state in which the bank does business to secure trust funds of the respective bank.)

69 *U. S. GOVERNMENT NOTES—UNPLEDGED*

U. S. Government Notes Unpledged Account represents the book value of the bank's investment in notes of the federal government due at a stated future date (usually 2 years or less from date of issue) bearing interest at a fixed rate, payable at maturity, which are free and not pledged to secure deposits.

69-1 *U. S. GOVERNMENT NOTES—PLEDGED*

U. S. Government Notes Pledged Account represents the same type of security as described in 69, except that they are pledged to secure deposits.

71 U. S. GOVERNMENT CERTIFICATES OF INDEBTEDNESS—UNPLEDGED

U. S. Government Certificates of Indebtedness Unpledged Account represents the bank's investment in short term interest bearing notes of the federal government issued against anticipated current tax revenues, which are free and not pledged to secure deposits. Certificates of Indebtedness generally are issued to mature monthly through the year and have their interest paid at maturity.

71-1 U. S. GOVERNMENT CERTIFICATES OF INDEBTEDNESS—PLEDGED

U. S. Government Certificates of Indebtedness Pledged Account represents the same type of security as described in 71, except that they are pledged to secure deposits.

73 U. S. TREASURY BILLS

U. S. Treasury Bills Account represents the book value of the bank's investment in 30-60-90 day notes of the federal government purchased at an interest discount basis.

77 OTHER GOVERNMENT OBLIGATIONS

Other Government Obligations Account represents the book value of the bank's investment in other bonds fully or partially guaranteed by the United States Government as to payment of principal and interest.

79 STATE OBLIGATIONS—UNPLEDGED

State Obligations Unpledged Account represents the book value of the bank's investment in bonds, warrants or tax anticipation notes, issued by the state or instrumentalities of the state, which are free and not pledged to secure deposits.

79-1 STATE OBLIGATIONS—PLEDGED

State Obligations Pledged Account represents the same type of investment as described in 79, except that they are pledged to secure deposits.

81 COUNTY OBLIGATIONS—UNPLEDGED

County Obligations Unpledged Account represents the book value of the bank's investment in bonds, warrants, tax anticipation, notes issued by counties, school districts, etc. which are free and not pledged to secure deposits.

81-1 COUNTY OBLIGATIONS—PLEDGED

County Obligations Pledged Account represents the same type of investment as described in 81, except that they are pledged to secure deposits.

83 MUNICIPAL OBLIGATIONS—UNPLEDGED

Municipal Obligations Unpledged Account represents the book value of the bank's investment in bonds, warrants or tax anticipation notes, issued by cities or towns or their instrumentalities, free and not pledged to secure deposits.

83-1 MUNICIPAL OBLIGATIONS—PLEDGED

Municipal Obligations Pledged Account represents the same type of investment as described in 83, except that they are pledged to secure deposits.

87 RAILROAD BONDS—DEBENTURES

Railroad Bonds—Debentures Account represents the book value of the bank's investment in bonds issued by railroads, which are eligible for bank investment.

89 UTILITY BONDS—DEBENTURES

Utility Bonds—Debentures Account represents the book value of the bank's investment bonds issued by gas, light and power, telephone and other public utility companies, which are eligible for bank investment.

91 FEDERAL RESERVE BANK STOCK

Federal Reserve Bank Stock Account represents the bank's investment in stock of the Federal Reserve Bank equal to 50% of its subscription, which is based on 6% of the bank's paid in capital and surplus. National banks are required to become members of the Federal Reserve System

while state banks and trust companies may become members, if they so desire. Members are required to pay for one half of their subscription upon admission to membership. The remainder in whole or in part, is subject to call by the Board of Governors of the Federal Reserve System.

93 OTHER BONDS, NOTES—DEBENTURES

Other Bonds, Notes, Debentures Account represents the book value of the bank's investment in miscellaneous bonds of manufacturing companies or bonds, not otherwise classified, and in stock acquired by the bank through foreclosure or liquidation of a loan or obligation held temporarily pending disposition.

Procedure:

1. Prepare a list of securities in all classifications from the investment ledger (Exhibit 30). Run and balance with the general ledger control account.
2. Examine all securities in the bank's possession. Review for order. Check for matured coupons and bonds. Make list of all matured coupons found.
3. Verify, by direct correspondence (or examination, if possible) all securities in safe keeping with other banks or out on trust receipt to secure deposits, or to security dealers for sale or purchase.
4. Reconcile the book price with brokers confirmation tickets on sales or purchases made during the last days.
5. Check the purchases and sales of securities for the bank's investment account for days with the minutes of the Directors or Executive Committee for proper authorization. List all purchases and sales made without formal approval.
6. Check out and reconcile interest computations on all purchases and sales of securities for the bank's investment account made during the last days. Report any differences.

BOND AND INVESTMENT ACCOUNTS

7. Test check the setting up of premiums on securities purchased above par for proper amortization schedule.
8. Test check periodical amortization of premiums.

Questionnaire:

- A. Are securities in the bank's possession held under dual control? By whom?
- B. What authority is required for the transfer of securities owned by the bank from safe keeping with other banks or depositories to other depositories to secure deposits?
Check for irregularities.
- C. Are trust receipts for securities in safe keeping or out on trust receipt properly filed?
- D. Is supervision and control over investments satisfactory? Comment
- E. Were all purchases and sales of securities for the bank's investment account made during the lastdays (or since the last examination) authorized by the directors?List exceptions
- F. Are purchases or sales of securities authorized and approved by the directors before or after orders have been executed?
- G. Are losses on security transactions in the bank's account referred to the stockholders at their annual meeting for ratification of the action of the Board of Directors?

CHAPTER X

Audit of Properties

Account 125

125	TOTAL PROPERTIES	\$.....		
	Item	Orig. Cost	Deprec.	Net Book Val.
97	Bank Premises	\$.....	\$.....	\$.....
99	Bank Premises—Equipment	\$.....	\$.....	\$.....
101	Bank Premises Under Constr.	\$.....	\$.....	\$.....
109	Other Real Estate	\$.....	\$.....	\$.....
111	Buses, Autos, Motorcycles, etc.	\$.....	\$.....	\$.....
113	Office Furniture & Fixtures	\$.....	\$.....	\$.....
117	Office Machines & Equipment	\$.....	\$.....	\$.....
119	Fixt., Equip. Leasehold Impr. Bldg. under construction	\$.....	\$.....	\$.....
121	Fixt. Equip. Leasehold Impr.	\$.....	\$.....	\$.....

The control account *Total Properties* represents the current net book value of the bank's investment in land, buildings, furniture, fixtures, machinery and equipment to which it has acquired title for use in conducting its business. In making an audit, the respective reserves for depreciation accounts should be reviewed and the depreciation applied (on work papers) wherever applicable so that the figures in the Properties Account in the audit are shown as net.

97 BANK PREMISES

Bank Premises Account represents the current value at which the bank is carrying its investments in buildings and real estate properties, such as land, parking lots, warehouses, etc. owned and operated by the bank in conducting its business.

99 *BANK PREMISES EQUIPMENT*

Bank Premises Equipment Account represents the current value of equipment, such as elevators, air conditioning units, electric signs, escalators, vault doors, etc., installed in, or part of buildings or real estate properties used by the bank in conducting its business.

101 *BANK PREMISES UNDER CONSTRUCTION*

Bank Premises Under Construction Account represents the current investment in the construction of buildings or remodelling of properties, which will be used and occupied by the bank in conducting its business, upon completion.

109 *OTHER REAL ESTATE*

Other Real Estate Account represents the current value at which the bank is carrying its investment in buildings and real estate properties owned, but which are not being used in conducting its business.

111 *BUSES, CARS, MOTORCYCLES, ETC.*

Buses, Cars, Motorcycles, Etc. Account represents the current value at which the bank is carrying its investment in vehicles used in conducting its business.

113 *OFFICE FURNITURE AND FIXTURES*

Office Furniture and Fixtures Account represents the current value at which the bank is carrying its investment in removable furniture and fixtures, such as desks, chairs, counters, clocks, carpeting, etc. used in conducting its business.

117 *OFFICE MACHINES AND EQUIPMENT*

Office Machines and Equipment Account represents the current value at which the bank is carrying its investment in removable machines and equipment, such as adding machines, typewriters, bookkeeping machines, internal telephone systems, etc. used in conducting its business.

119 *FIXTURES — EQUIPMENT — LEASEHOLD IMPROVEMENTS BUILDING UNDER CONSTRUCTION*

Fixtures — Equipment — Leasehold Improvements Buildings Under Construction Account represents the current investment the bank has made in fixtures and equipment, such as elevators, air conditioning units, vault doors, etc. in buildings under construction, which when completed, will be used by the bank in conducting its business.

121 *FIXTURES — EQUIPMENT — LEASEHOLD IMPROVEMENTS*

Fixtures—Equipment—Leasehold Improvements Account represents the current value at which the bank is carrying its investment in fixtures and equipment, such as vault doors, air conditioning units, electric signs, etc., owned by the bank, but installed in buildings which the bank is leasing for conducting its business.

Procedure:

1. Prepare a transcript of each of the respective property accounts, per Exhibit 31, showing charges and credits since last examination.
2. Review each class of assets as to proper charges, proper insurance coverage and depreciation.
3. Prepare a schedule, per Exhibit 32, showing when periodical inspection reports were made by the designated officer of the bank covering each piece of property owned or operated by the bank, for the purpose of determining the condition of property and need for painting, repairs, etc., so proper rehabilitation schedules could be set up. Summarize recommendations and comment on progress.
4. Prepare, and include with this report, a summary, per Exhibit 33, of the budget provision covering all premises; and fixtures and equipment for prem-

AUDIT OF PROPERTIES ACCOUNTS

ises under construction; showing amount of estimated expenditure, authority, and amount disbursed to date and estimated over and short with budget, when finally completed.

5. Prepare and include with this report, a schedule showing contracts which have been awarded covering rehabilitation of properties, such as painting, decorating, etc. not yet in process, and orders covering the purchasing of machinery and equipment, etc., which have not been delivered.
6. Report on progress made in adopting recommendations and suggestions respecting safety and security factors in each office occupied by the bank, made at time of last periodical examination.
7. Review rental record of all property owned and occupied by the bank or leased by bank; and leased or subleased to others. Trace rents received to income account. Prepare a schedule showing all lessors delinquent as of date of examination and reason for same.

Questionnaire:

- A. Has sufficient depreciation been taken on all real estate and bank premises based on age?
List exceptions
- B. Has sufficient depreciation been taken on furniture, fixtures, equipment and machinery based on age?
List exceptions
.....
- C. Are depreciation schedules properly set up on all types of properties, machinery and equipment?.....
Comment
- D. Have any items of furniture, fixtures, machinery and equipment been charged to expense or incorrectly capitalized? List exceptions.
.....

BANK AUDITING

- E. In regard to rental of equipment, would the bank be better off to own some of the equipment which it presently leases or rents? Comment
.....
- F. Have budgets covering the construction of new buildings or rehabilitation of buildings been submitted and properly approved by the Board of Directors or Executive Committee?
Comment
- G. What procedure is used in billing lessors of property and following up delinquencies?
- H. Does physical review and inventory of furniture, fixtures, machinery and equipment, owned by the bank and used in conducting its business, indicate that it is maintained in good condition and repair?
..... Comment

CHAPTER XI

Audit of Income Earned but not Collected Account 135

135	TOTAL INCOME EARNED BUT NOT COLLECTED 135	\$.....
127	Accrued Interest Receivable	\$.....
129	Interest Earned But Not Collected	\$.....
131	Other Income Earned or Accrued But Not Collected	\$.....

The control account *Income Earned But Not Collected* represents the amount of interest earned on bonds, notes, mortgages and similar obligations; and on rents due, which will not be collected until the date, specified in the instrument for the payment of interest or rent, is reached.

The balance in the respective control accounts represents the amount of interest or income earned from the last interest payment date to the end of the month—if the bank is on a monthly accrual basis; to the end of the week—if the bank is on a weekly accrual basis; or to the close of business of the previous day—if the bank is on a daily accrual basis.

In operation, the interest accrued on various classes of loans and investments is charged against the respective accounts and credited to respective Income Accounts. As interest accrued is paid, it is credited to the Accrued Interest Account.

127 ACCRUED INTEREST RECEIVABLE

Accrued Interest Receivable Account represents the amount of interest earned by the bank's investment in the various classes of loans; which has accrued from the date of

the instrument or date of discount to date of last periodical computation; which has not been collected from the borrower.

129 INTEREST EARNED BUT NOT COLLECTED ACCOUNT

Interest Earned But Not Collected Account represents the amount of interest earned by the bank on investments in bonds, debentures, and similar obligations of the federal, state and municipal governments; industrial, railroad and public utility companies; and mortgages, from the date of last payment of interest to date of periodical computation; which has not been collected from debtor.

131 OTHER INCOME EARNED OR ACCRUED BUT NOT COLLECTED

Other Income Earned or Accrued But Not Collected Account represents the amount of such items as building rent, safe deposit box rent, interest on other notes, etc., earned from date of last payment of interest or income, to date of last periodical computation, which has not been collected from debtor.

Procedure:

1. Verify all debits to the Accrued Interest Receivable account since by comparing the periodical entries with the summary as shown on the detailed interest record or accrual card. Test check and refoot schedules.
2. Verify all debits to the Interest Earned But Not Collected account since by comparing the periodical entries with the detailed interest records or accrual card in the Investment Department. Test check and refoot schedules.
3. Verify all debits to Other Income Earned or Accrued But Not Collected account since by tracing all items to their source. Test check and refoot schedules.

INCOME EARNED—NOT COLLECTED

4. Check transfers to the income accounts by comparing the debits against the Accrued Interest Receivable account with the credits to the respective Interest Earned—Loans and Discounts account.
5. Check transfers to income accounts by comparing the debits to the Interest Earned But Not Collected account with the credit to the Interest Earned-Investment account.
6. Check transfers to the income accounts by comparing the debits against the Other Income Earned or Accrued But Not Collected account with the credits to the respective income accounts.
7. Confirm and test check all credits to the Accrued Interest Receivable account since
Make a list of unwashed items.
8. Confirm and test check all credits to the Interest Earned But Not Collected account since
Make a list of unwashed items.
9. Confirm and test check all credits to the Other Income Earned and Accrued But Not Collected account since Make a list of unwashed items.
10. Audit, where practical, the respective individual Income Earned or Accrued But Not Collected accounts by listing all items against which interest is accruing by amount and number of days for which interest has been accrued on work sheets, under columns provided for each rate of interest. Proof of the accrual accounts can be made by either computing the earned interest on each bond, note or item shown on the list, adding the total of each column to get the total earned income, or by multiplying the principal amount of the bond, note or item by the number of days interest has been accruing and then by adding the column and computing the interest on the accumulated total for

BANK AUDITING

one day. The total under each rate of interest computation should balance with the respective Accrued Interest Receivable account.

Questionnaire:

- A. Are all debits to the respective accounts properly authorized?
- B. Are there excesses or deficiencies in any of the respective accrual accounts? What disposition is made of them?
- C. Did you call the attention of the officer in charge to excesses or deficiencies so that proper steps can be taken to adjust the account?
- D. Are there any income factors presently being handled on a cash basis which more properly should be accrued?
Prepare a list of such items.
.....
- E. Are there any income factors which are presently being accrued which more properly should be handled on a cash or some other basis?
Prepare a list of such items

CHAPTER XII

Audit of Current Expenses from Operations Account 155

155	TOTAL CURRENT EXPENSES FROM OPERATIONS	\$.....
137	Int. and Disc. on Borrowed Money	\$.....
139	Interest Paid on Deposits	\$.....
141	Taxes Paid	\$.....
143	Depreciation	\$.....
147	Fees Paid to Directors and Committees	\$.....
149	Salaries and Overtime Paid	\$.....
151	Other Operating Expenses	\$.....

The detail of the expense accounts, which make up the respective subsidiary accounts, 137 to 151 inclusive, are set upon separate schedules as follows:

Description	Account Number	
Int. on Overdrafts	137-1	.....
Int. on Advances for Other Purposes	137-2	.....
Discount on Acceptances	137-3	.....
TOTAL INT. AND DISC. ON BORROWED MONEY	137	.....
Int. paid on Public Demand Funds	139-1	.....
Int. paid on Public Time Funds	139-2	.....
Int. paid on Savings Deposits	139-3	.....
Int. paid on Time Dep. Open Accounts	139-4	.....
Int. paid on Sav. Dep. (Personal Loans)	139-5	.....
TOTAL INTEREST PAID ON DEPOSITS	139	.....
Property Taxes (R.E.; Pers. Prop)	141-1	.....
Municipal License Tax	141-2	.....
Social Security Tax	141-3	.....
Excise Tax & Internal Revenue Stamps	141-4	.....
Auto; Bus; Motorcycle; Bus License Tax	141-5	.....
Income Tax	141-6	.....
TOTAL TAXES PAID	141	.....
Depreciation; Office Furniture/Fixtures	143-1	.....
Depreciation; Machines and Equipment	143-2	.....
Depreciation; Bank Bldg. Equipment	143-3	.....
Depreciation; Bank Building	143-4	.....
Depreciation; Buses, Cars, etc.	143-5	.....
TOTAL DEPRECIATION	143	.....
FEES PAID TO DIRECTORS AND COMMITTEES	147	.....
Salaries: Bank Employees	149-1	.....

BANK AUDITING

Description	Account Number	
Salaries: Bank Officers	149-2	.....
Overtime: Bank Employees	149-3	.....
Salaries: Building Employees	149-4	.....
Overtime: Building Employees	149-5	.....
TOTAL SALARIES AND OVERTIME PAID	149	.....
Advertising — Calendars	151-1	.....
Direct Mail	151-1-A	.....
Magazines	151-1-B	.....
Newspapers	151-1-C	.....
Publicity	151-1-D	.....
Attorney Fees	151-2	.....
Automobile Allowances	151-3	.....
Building Improvement Amortization	151-4	.....
Cables — Bank Account	151-5	.....
Customers Accounts	151-5-A	.....
Contributions — Bank	151-6	.....
Employees Welfare	151-6-A	.....
Donations — Charitable	151-7	.....
Civic	151-7-A	.....
Other	151-7-B	.....
Dues — Association	151-8	.....
Club	151-8-A	.....
Society	151-8-B	.....
Entertainment — Customers	151-9	.....
Convention	151-9-A	.....
New Business	151-9-B	.....
Examination — State Banking Dept. or Office	151-10	.....
Fed. Banking Dept. or Office	151-10-A	.....
Express	151-11	.....
Flowers	151-12	.....
Freight	151-13	.....
Gasoline — Oil	151-14	.....
Gifts — Honorariums	151-15	.....
Hotels	151-16	.....
Ins. — Fire, etc. Machines, Equip., Fur. Fixt	151-17	.....
Blanket Bond	151-17-A	.....
Accident	151-17-B	.....
Cash or Sec. Transferred	151-17-C	.....
Public Liability	151-17-D	.....
Safe Deposit Liability	151-17-E	.....
State Ins. (Workman Comp.)	151-17-F	.....
F. D. I. C.	151-17-G	.....
Fire-Earthquake on Bldgs	151-17-H	.....
Light — Power	151-18	.....
Luncheons — Customers	151-19	.....
Employees	151-19-A	.....
New Business	151-19-B	.....

AUDIT OF CURRENT EXPENSES

Description	Account Number	
Maintenance — Buildings	151-20	.....
Building Equipment	151-20-A	.....
Furniture & Fixtures	151-20-B	.....
Machinery & Equipment	151-20-C	.....
Mobile Units	151-20-D	.....
Mobile Units Equipment	151-20-E	.....
Other Real Estate	151-20-F	.....
Medical Examination & Expenses	151-21	.....
Pension Plan — Regular	151-22	.....
Special	151-22-A	.....
Photographs	151-23	.....
Postage	151-24	.....
Professional Services	151-25	.....
Rent — Automobiles	151-26	.....
Bank Premises	151-26-A	.....
Garages & Others	151-26-B	.....
Machinery & Equipment	151-26-C	.....
Repairs — Building	151-27	.....
Building Equipment	151-27-A	.....
Furniture & Fixtures	151-27-B	.....
Machinery & Equipment	151-27-C	.....
Mobile Units	151-27-D	.....
Mobile Units Equipment	151-27-E	.....
Other Real Estate	151-27-F	.....
Stationery — Printing — Office Supplies	151-28	.....
Subscriptions — Magazines	151-29	.....
Newspapers	151-29-A	.....
Other	151-29-B	.....
Supplies — Building	151-30	.....
Others	151-30-A	.....
Taxi	151-31	.....
Telegraph	151-32	.....
Telephone — Local	151-33	.....
Long Distance	151-33-A	.....
Overseas	151-33-B	.....
Transportation — Bank Business — Air	151-34	.....
Boat	151-34-A	.....
Railroad	151-34-B	.....
Transportation — Other — Air	151-34-C	.....
Boat	151-34-D	.....
Railroad	151-34-E	.....
Uniforms — Building	151-35	.....
Bank	151-35-A	.....
Water — Buildings	151-36	.....
Drinking	151-36-A	.....
Unallocated	151-37	.....
TOTAL OTHER OPERATING EXPENSES	151	.....
TOTAL CURRENT EXPENSES FROM OPERATIONS	155	.....

The control account *Total Current Expenses From Operations* represents the total balances of the various subsidiary cash and accrual expense accounts which have not been periodically closed out to the account Undivided Profits—149. (This is usually done as of June 30 and December 31 of each year).

Expenses of the bank fall into four principal categories:

- A. Expenses incurred in the day by day operations of the bank and which are approximately of the same amount each month, such as salaries, rent, light, postage, etc.
- B. Expenses which are prepaid (paid in advance) covering such items as insurance.
- C. Expenses which are currently being incurred but payable at a future date, such as Interest on Savings Accounts, Federal Income Tax, etc. against which a proportionate amount is reserved each month.
- D. Expenses which are incurred in making capital investments for the bank, such as for furniture, fixtures, machinery, equipment, which are capitalized and depreciated over their life use, by a periodical charge.

It is customary practice of banks to issue a check in payment of each invoice received in connection with the purchasing of furniture, fixtures, machinery, equipment, stationery, supplies, legal and other services and, unless salaries and wages are paid by individual check, to issue a check for the amount of the periodical monthly payroll as well as one check periodically (weekly or semi-monthly) to cover cash disbursements for such petty items as express or postage, etc.

All checks issued in payment of an invoice should be supported by a voucher showing the check number, date, amount, payee, purpose for which the check was issued, the respective expense account to be charged in the Expense Distribution Ledger and bear the initials of the clerk prepar-

ing the check, together with the initials of the officer who authorized or approved payment of the invoice. The amount of such check is then indexed in the Expense Distribution Ledger under its proper classification, such as salaries, flowers, luncheons, supplies, etc. (See detail in Exhibit 23.)

The voucher acts as the general ledger debit to respective expense control accounts (details are usually kept in subsidiary ledgers) or accrued expenses accounts, while the general ledger account, Expense Checks is credited with the total amounts of checks issued. After the check is signed, the voucher, invoice and duplicate of the order are usually stapled together and filed in numerical order for reference purposes.

At the end of the month, the respective classifications are totaled and proven against the total balances in the general ledger account, Expenses Paid, if the bank is operating on a cash basis, and against the account Expenses Accrued But Unpaid, if the bank is operating on an accrual basis.

It is also the accepted practice of banks to include, as current expenses, the proportionate monthly share of expenditures capitalized or prepaid, and those currently incurred, but not payable until a later date. As a result of this recognized practice, the totals in the Expense Distribution Ledger will not balance with the Expense Check Register amounts, due to the fact that while checks are issued for the original invoice, the charge to Expense represents only a proportioned share of the total cost spread out over the lifetime of the article.

If the bank operates on a cash basis, all expense charges will be for the full amount of the service rendered or invoice paid; while if the bank is on an accrual basis, the expense charge will only be for the proportional amount of the service rendered, or expense covered by the invoice incurred during the current period. Generally, a current period covers one month and for accrual purposes $1/12$ of the estimated annual expense.

As segregation of certain types of expenses are required, necessary and desirable from a tax reporting and cost dis-

tribution standpoint, they are set up into seven major control classifications as follows: Each control account is composed of a number of subsidiary accounts as detailed.

137 INTEREST AND DISCOUNT ON BORROWED MONEY

Interest and Discount on Borrowed Money Account represents the amount of interest paid on overdrafts incurred by the bank or accrued on notes and debentures, or the discount on acceptances during the current period.

139 INTEREST PAID ON DEPOSITS

Interest Paid on Deposits Account represents the proportionate amount of interest paid which has been earned by deposit accounts subject to interest during the current period, such as Public Demand and Public Time Funds; Savings Deposits, and Certificates of Deposit.

The total amount of interest earned during the month is charged to Expense and credited to the Reserve for Interest account, which is debited at interest payment dates with the amount of interest actually earned and paid.

141 TAXES PAID

Taxes Paid Account represents the amount of real estate, personal property and income taxes which have accrued during the current period.

The amount of taxes charged to expense are credited to respective reserve accounts against which are charged the tax bills when received.

143 DEPRECIATION

Depreciation Account represents the amount of depreciation on furniture, fixtures, machinery and equipment, buildings and other similar assets of the bank, used during the current period.

Depreciation is usually taken in accordance with a predetermined schedule patterned according to federal and state taxing provisions.

The monthly charge to expense is either credited against the respective items, or class of items, or credited to respective reserve accounts from which annual reduction of book value of properties are made.

147 FEES PAID DIRECTORS AND COMMITTEES

Fees Paid Directors and Committees Account represents the amount of fees, salaries or gratuities paid directors for attending directors meetings or other meetings required to be attended by directors; and fees or gratuities paid directors, officers and employees for attending meetings of committees.

149 SALARIES AND OVERTIME PAID

Salaries and Overtime Paid Account represents the amount of salaries of officers and employees; and overtime of employees earned and paid during the current period.

151 OTHER OPERATING EXPENSES

Other Operating Expenses Account represents the amount of numerous expenses, generally consistent as to amount each month, incurred in the operation of the bank during the current period, such as rent, light, power, postage, freight and other items as detailed on the Expense Detail Schedule.

Procedure:

1. Verify the amount of all interest or discount payments for borrowed money by comparing the debits in the Interest and Discount on Borrowed Money Account with the advice of debits from the correspondent banks and the credit to the respective correspondent bank account. Refigure the interest computation.
2. Verify all debits to expense covering Interest Paid on Deposits by comparing the amount of the interest expense with the corresponding credit to the Accrued Interest Payable account.

BANK AUDITING

3. Verify all debits to expense on Taxes Paid by comparing the amount charged to expense with the corresponding credit to the Accrued Taxes Payable account.
4. Verify and confirm all debits to expense for depreciation of the various types, by comparing the charges to expense with the offsetting credit to the Reserve for Depreciation of various properties accounts.
5. Verify all debits to expense for Fees Paid to Directors and Committees by checking the minutes of the committees for the records of those attending and the corresponding dates of meetings. List any exceptions.
6. Check salaries and overtime paid from payroll records and the total Salaries and Overtime Paid account from records in the Personnel Department. (Detail audit of salaries of all personnel is made under a special routine covering Audit of Personnel).
7. Review all operating expense items. Trace back expense items and check requisitions for proper authorization and approval. List exceptions.
8. Test and verify stationery and supplies purchased by reviewing vouchers and comparing quantities of the order distributed and remaining on hand in the stock room with original order.
9. Review payments of all other expense items in detail. Verify disbursement of expenses from the vouchers. Review for proper authority.
10. Verify all expenditures in connection with advertising and donations, etc., for authorization, approval and budget provisions.
11. Review all expenditures for machinery, equipment, furniture and fixtures for proper authorization, and budget provisions.

AUDIT OF CURRENT EXPENSES

Questionnaire:

- A. Are monthly charges to depreciation sufficient?
.....
- B. Are monthly charges to expense and credits to various reserve accounts sufficient for the purpose intended?
- C. Are all expense vouchers and requisitions for reimbursement of expense properly approved as provided and authorized by the Comptroller or other designated officer before being issued?
- D. Are increases in salary properly confirmed and authorized by the Board of Directors?
- E. Are the directors furnished with a monthly report in detail of all expenses paid or incurred?
Is such approval recorded in the minutes?
- F. Is a comparative statement of expense for the current period against expenses for the previous corresponding period available? Is it used as a tool of management?
- G. Has there been an increase or decrease in operating expenses? What is the reason?
.....

CHAPTER XIII

Audit of Charges or Losses on Accounts 165

165	TOTAL CHARGES OR LOSSES	\$.....
157	Losses on Loans	\$.....
159	Sundry Losses	\$.....
161	Losses on Sale of Securities	\$.....
163	Losses on Sale of Other Property	\$.....

The control account *Total Charges or Losses* represents the total amount of losses taken by the bank on loans, investments and other assets during the current period, which have not been closed out to the undivided Profits account or respective Reserve for Losses account.

For tax reporting and management purposes, all such losses as taken are charged to subsidiary account reflecting the particular type of loss.

157 LOSSES ON LOANS

Losses on Loans Account represents the amount of losses taken by the bank with the approval of, and at the direction of, the directors on the various types of business, personal and installment loans during the current period.

159 SUNDRY LOSSES

Sundry Losses Account represents the net amount of losses taken by the bank with the approval of, and at the direction of, the directors on extraordinary tellers cash differences, passage of counterfeits, forged endorsements, etc. during the current period.

161 LOSSES ON THE SALE OF SECURITIES

Losses on the Sale of Securities Account represents the amount of losses taken by the bank, with the approval of,

and at the direction of, the directors on the sale of investments from the bank's portfolio during the current period.

163 LOSSES ON THE SALE OF OTHER PROPERTY

Losses on the Sale of Other Property Account represents the loss difference between the book value and sale price of real estate, furniture, machinery, equipment, automobiles, or other similar assets of the bank sold for the bank's account during the current period.

Procedure:

1. Prepare a transcript of each account as shown in Exhibit 34 showing all debits and credits since last examination or since
2. Check all debit entries on each account for proper authorization and approval. Report on all charges not made in accordance with approval of Board of Directors, Executive Committee or current operating instruction covering authority.
3. Reconcile and trace to accounts and items effected, the application of funds charged against Losses on Loans account and Sundry Losses account.
4. Reconcile the proceeds from the sale of securities sold since last examination or since on which a loss was established, with the book value as shown in the Investment Ledger and the charge to Losses on the Sale of Securities account.
5. Verify the price of securities sold with the market quotations as shown on the date of sale and brokers confirmation tickets.
6. Verify the computations of interest collected in connection with the sale of securities.
7. Reconcile the proceeds of the sale of other property sold since last examination or since with the book value as shown on the Properties Ledger and the charges to Losses from the Sale of Other Property account.

BANK AUDITING

8. Review all loans, sundry losses, securities and other charged off items under custody of Comptroller's Department Report on the present status. Comment on procedure followed to effect recovery.

Questionnaire:

- A. Do all debits to Losses on Loans account indicate whether the debit covers a partial charge off or a full charge off of the obligations?
Comment
- B. Who authorizes the charge off of loans and sundry items?
- C. Are all debits to Charges or Losses Accounts properly authorized and approved?
List exceptions
- D. What procedure or practice is followed in maintaining an asset record of items charged off so that they can be periodically reviewed and followed up for possible recovery opportunities?
.....
- E. How often are charged off items reviewed, and a report made to the Board of Directors?
- F. Is the procedure or practice for handling charged off items satisfactory? Comment

CHAPTER XIV

Audit of Other Resources

Accounts 185

185	<i>TOTAL OTHER RESOURCES</i>	\$.....
167	Account Receivable	\$.....
169	Tellers Difference	\$.....
171	Hold Over Debts	\$.....
173	Customers Liability Under L of C	\$.....
177	Prepaid Expenses	\$.....
181	Sundry Resources	\$.....

The control account *Total Other Resources* represents the total balances of various other asset accounts which do not properly allocate themselves into other standard control classifications, such as Accounts Receivable set up for various transactions.

From a management and control standpoint, such accounts are separated into the following sub classifications.

167 ACCOUNTS RECEIVABLE

The Accounts Receivable account represents the balances of unpaid amounts due the bank for such items as cable or collection charges, fees or commissions, etc. owed by customers for services which they did not want to have charged to their account; dishonored checks cashed for non customers awaiting pick up; and miscellaneous interest or other income taken into earnings, but against which collection has been deferred.

169 TELLERS DIFFERENCE

The Tellers Difference Account represents the net amount of cash shortages of the tellers, currently not located or claimed. This account is usually closed out to the Undivided Profits account or to the Sundry Losses account at the end of the accounting period.

171 HOLD OVER DEBITS

The Hold Over Debits Account represents the amounts of debits or charges to other asset accounts which were not posted against the respective account on which drawn during the current day's business and are held over for posting until the following day.

173 CUSTOMERS LIABILITY UNDER LETTERS OF CREDIT

Customers Liability Under Letters of Credit Account represents the open balance of commercial or travellers letter of credit issued or guaranteed by the bank in the name of an individual or corporation. As drafts drawn by the customers under the letter of credit are presented to, and paid by the bank, and either charged to the customer account or otherwise paid, this account is reduced, as is the liability contra account 238, Letters of Credit Outstanding Account.

177 PREPAID EXPENSE

Prepaid Expense Account represents the unused portion of expense for services or assets which the bank has paid for in advance; such as insurance, check stock, coal supply for the year, etc. and which are proportionately charged to expense as used.

181 SUNDRY RESOURCES

Sundry Resources Account represents the balance of miscellaneous account receivable items not otherwise clarified, such as amounts due from branch offices when their assets are greater than their deposit liabilities; advances and disbursements made to officers and other bank personnel for travelling expenses to be accounted for on their return and similar items.

Procedure:

1. Review all debits and credits to the Account Receivable account from or from last examination for proper order and disposition of all items.

OTHER RESOURCES

2. Prepare a schedule as shown in Exhibit 35 of Accounts Receivable Account showing by date, amount, payer and purpose, all items open and outstanding as of date of examination. Check for irregularities. Make adding machine listing and balance with general ledger control account.
3. Prepare a transcript by teller, as shown in Exhibit 36, of the Tellers Difference Account from..... or since last examination. List *all* debits and credits by date and amount. Check for date or amount continuity. Review and compare the differences of the individual tellers by periods. Comment.
4. Review the Hold Over Debits account from for order and proper disposition.
5. Prepare a schedule as shown in Exhibit 37 of all open Hold Over Debits items. Trace to corresponding contra entries.
6. Make an adding machine trial balance of the liability ledger covering Letters of Credit Outstanding. Verify the total with the general ledger control account.
7. Review the folder of each outstanding letter of credit customer. Determine that it contains the required application, that the duplicate conforms to the application, and that the guarantee signed by the applicant is properly approved by an officer in accordance with the lines of authority. List exceptions.
8. Prepare a schedule as shown in Exhibit 38 on each outstanding letter of credit, showing amount of original credit, amount of acceptances and drafts executed, and amount outstanding as of date of examination.
9. Review Letters of Credit issued since last examination or from to date of examination for numerical sequence. List exceptions.

10. Review Prepaid Expense Account for proper order and disposition of items.
11. Prepare a schedule as shown in Exhibit 39 by date, payer, detail, amount, of all items in the Prepaid Expense Account open and outstanding as of date of examination.
12. Prepare a schedule as shown in Exhibit 40 describing all insurance carried for the bank's protection by number, company, type, coverage, amount, date of issue, date of expiration, and premium. Test or verify unearned premiums.
13. Review F.D.I.C. assessments for proper computation and amortization. Compare the monthly credit to this account with the monthly charge to expense.
14. Review Sundry Resources Account for proper order and disposition of items.
15. Prepare a schedule as shown in Exhibit 41 of all Sundry Resources items open and outstanding as of date of examination.

Questionnaire:

- A. Are any items carried in the Accounts Receivable Account which more properly should be carried in another asset account classification?
Comment
- B. Are there items in the Accounts Receivable Account owed by and held in behalf of customers, which should more properly be charged to their account?..... Comment
- C. Is the Tellers Difference Account active?
Comment
- D. How frequently is the Tellers Difference Account submitted to the Board of Directors?
- E. Are all items held in Hold Over Debits Account proper as to account?

OTHER RESOURCES

- F. Are all applications for Letters of Credit properly signed by the customer? List exceptions
- G. Are all Letters of Credit issued properly approved by the officers within their loaning limitations? List exceptions
- H. Are all drafts accepted and paid, promptly charged against the Letters of Credit Account? List any exceptions
- I. Is the insurance coverage adequate?
Are premiums properly amortized? List exceptions.
- J. When was the last time that an outside insurance counsellor was called in to review the bank's exposure and insurance coverage? Should it be done?
- K. Is the F.D.I.C. assessment being properly amortized by the monthly charges to expense?
- L. Are any items being carried in Prepaid Expense Account which more properly should be carried in some other asset account?
Comment
- M. Are there any items being carried in Sundry Resources Account which should more properly be carried in another asset account?
Comment
- N. Are there any capital items temporarily being carried in Sundry Resources Account?
List
If so, were they properly authorized by the Board of Directors?

CHAPTER XV

Audit of Public Fund Demand Deposits Secured by Collateral 20

20	TOTAL PUBLIC FUND DEMAND DEPOSITS SECURED BY COL- LATERAL	\$.....
2	State Deposits Sec. by Collateral Demand	\$.....
6	County Deposits Sec. by Collateral Demand	\$.....
8	City Deposits Sec. by Collateral Demand	\$.....
12	Other Public Fund Deposits Sec. by Collateral Demand	\$.....

The control account *Total Public Fund Demand Deposits Secured by Collateral* represents the total balances of deposit accounts subject to withdrawal on demand, maintained by states, counties, cities, municipalities and their instrumentalities; secured or collateralized by a pledge of prescribed or acceptable securities, or by a surety bond. Such deposits are carried on the books of the bank, either in the name of the state, county, city or its instrumentality or, in the name of the treasurer, secretary or other designated financial officer of the respective state, county, city or instrumentality.

2 STATE DEPOSITS SECURED BY COLLATERAL- DEMAND

State Deposits Secured by Collateral Demand Account represents funds belonging to the state or its instrumentality, maintained with the bank in a demand deposit account subject to check, secured by acceptable collateral or a surety bond.

6 COUNTY DEPOSITS SECURED BY COLLATERAL-DEMAND

County Deposits Secured by Collateral Demand Account represents the funds belonging to a county, parish or political subdivision, maintained with the bank in a demand deposit account, subject to check, secured by acceptable collateral or a surety bond.

8 CITY DEPOSITS SECURED BY COLLATERAL-DEMAND

City Deposits Secured by Collateral Demand Account represents the funds belonging to a city, its taxing body, or one of its utilities such as gas, electrical plant, or a garbage disposal plant, maintained with the bank in a demand deposit account, subject to check, secured by acceptable collateral or a surety bond.

12 OTHER PUBLIC FUND DEPOSITS SECURED BY COLLATERAL-DEMAND

Other Public Fund Deposits Secured by Collateral Demand Account represents the funds belonging to a school district or park district or some other municipal entity created by the legislature of the respective states, maintained with the bank in a demand deposit account, subject to check, secured by acceptable collateral or a surety bond.

Procedure:

1. Seal or place under control all ledgers containing the subject accounts.
2. Make an adding machine listing of all ledger balances according to classification and compare totals with the control figure totals.
3. Test check signatures of a number of accounts picked at random for authenticity. Compare signatures on the checks with signatures on the signature cards, resolution or authorization document.
4. Intercept, review and analyze all return items or debits to the accounts during the examination for authenticity. Make a list of any doubtful transactions and confirm.

5. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transaction (Late deposits)
6. If balances are to be directly verified, list on tally sheets and follow instructions as set forth in Exhibit 42.
7. Test check a selected number of accounts for use of uncollected funds. List such accounts.

Questionnaire:

- A. Are monthly statements rendered all accounts? What percentage are mailed? Held for call?
- B. What precautions are taken to see that all statements of accounts are mailed or delivered without changes or alterations?
- C. On what day are statements available for delivery to customers?
- D. If statements are held for pick up, how long do they remain in the control of the bank?
- E. What control is maintained over cancelled checks and statements waiting to be called for?
- F. Are proper resolutions, or authorization documents covering the withdrawal of funds on file for all accounts? List exceptions
- G. Are paid and cancelled checks filed satisfactorily? Comment
- H. Do checks in the "Paid File" bear the endorsement stamp of the payee's bank? Test check and list.
- I. Are all checks in the "Paid File" perforated with the date of payment? Test check and list exceptions.

Audit of U. S. Government Demand Deposits Secured by Collateral 30

30	TOTAL U. S. GOVERNMENT DE- POSITS SECURED BY COL- LATERAL DEMAND	\$.....
22	U. S. Treasury General Account Se- cured by Collateral Demand	\$.....
24	Army-Navy Air Force Funds Secured by Collateral Demand	\$.....
26	U. S. Treasury Tax and Loan Account Secured by Collateral Demand	\$.....
28	Postal Savings Funds Secured by Col- lateral Demand	\$.....

The control account *Total U. S. Govt. Demand Deposits Secured by Collateral* represents the total balances of deposit accounts subject to withdrawal on demand, maintained by the United States Government or one of its instrumentalities, secured or collateralized by a pledge of U. S. Government bonds.

Such deposits are carried on the books of the bank either in the name of the U. S. Treasury, its instrumentality, or in the name of the Treasurer of the United States, Federal Reserve Bank as Agent, or designated financial officer of the instrumentality.

22 U. S. TREASURY GENERAL ACCOUNT SECURED BY COLLATERAL-DEMAND

U. S. Treasury General Account Secured by Collateral-Demand Account represents the general funds belonging to the U. S. Government carried in the name of the Treasurer

of the United States, maintained with the bank in a demand deposit account, subject to check, secured by a pledge of U. S. Government or other acceptable securities.

24 ARMY, NAVY AND AIR FORCES FUNDS, SECURED BY COLLATERAL-DEMAND

Army, Navy and Air Forces Funds Secured by Collateral-Demand Account represents the funds belonging to the respective armed services for payroll or current purposes, maintained with the bank in a demand deposit account subject to check secured by a pledge of U. S. Government or other acceptable securities.

26 U. S. TREASURY TAX AND LOAN ACCOUNT SECURED BY COLLATERAL-DEMAND

U. S. Treasury Tax and Loan Account Secured by Collateral-Demand Account represents the balance of funds paid to the government in settlement of current subscriptions to new treasury issues and sale of U. S. Savings Bonds and left with the bank in a demand deposit account, subject to check, secured by a pledge of U. S. Government or other acceptable securities.

28 POSTAL SAVINGS FUNDS SECURED BY COLLATERAL-DEMAND

Postal Savings Funds Secured by Collateral Demand Account represents the redeposit of funds accepted by the U. S. Post Office through its Postal Savings System, which are maintained with the bank in a demand deposit account, subject to check, and secured by a pledge of U. S. Government or other acceptable securities.

Procedure:

1. Seal or place under control all ledgers containing the subject accounts.
2. Make an adding machine listing of all ledger balances according to classification and compare totals with the control figure totals.

GOVERNMENT DEMAND DEPOSITS

3. Test check signatures for authenticity by comparing signatures on the checks with signatures on the signature cards, resolutions or authorization documents.
4. Intercept, review and analyze all return items or debits to the accounts during the examination for authenticity. Make a list of any doubtful transactions and confirm.
5. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transaction (Late deposits).
6. If balances are to be directly verified, list on tally sheets and follow instructions as set forth in Exhibit 42.
7. Test check a selected number of accounts for use of uncollected funds. List such accounts and analyze.

Questionnaire:

- A. Are monthly statements rendered all accounts?
..... What percentage are mailed?
Held for call?
- B. What precautions are taken to see that all statements of accounts are mailed or delivered without changes or alterations?
- C. On what day are statements available for delivery to customers?
- D. If statements are held for pick up, how long do they remain in the control of the bank?
- E. What control is maintained over cancelled checks and statements waiting to be called for?

BANK AUDITING

- F. Are proper resolutions or authorization documents covering the withdrawal of funds on file for all accounts? List exceptions
- G. Are paid and cancelled checks filed satisfactorily?
- H. Do checks in the "Paid File" bear the endorsement guaranteed stamp of the payee's bank? Test check and list exceptions.
- I. Are all checks in the "Paid File" perforated with the date of payment? Test check and list exceptions.

CHAPTER XVII

Audit of Regular and Special Demand Deposit Accounts 40

40	TOTAL REGULAR AND SPECIAL DEMAND DEPOSITS	\$.....
32	Regular Checking Deposits	\$.....
34	Special Checking Deposits	\$.....
36	Inactive Checking Deposits	\$.....
38	Certificates of Deposit	\$.....

The control account *Total Regular and Special Demand Deposits* represents the total balances in regular or special purpose deposit accounts, payable on demand by check, maintained with the bank by individuals, corporations, partnerships and associations.

32 REGULAR CHECKING DEPOSITS

Regular Checking Deposits Account represents the total balances of regular or special purpose accounts, payable by check on demand, maintained with the bank by individuals, corporations, partnerships and associations.

34 SPECIAL CHECKING DEPOSITS

Special Checking Deposits Account represents the total balances of personal/individual accounts, payable by check on demand, maintained with the bank under special service charge and handling arrangements.

36 INACTIVE CHECKING DEPOSITS

Inactive Checking Deposits Account represents the balances of regular and special checking accounts which have had no deposit or check activity for a considerable length of time. For reasons of safety and protection, it is customary

to segregate such accounts under dual control or under special protective procedures.

38 CERTIFICATES OF DEPOSIT

Certificates of Deposit represents the total balances of non interest bearing accounts in the name of individuals, corporations, partnerships, associations; evidenced by certificates payable upon presentation. The use of demand certificates of deposit in recent years has been largely supplanted by cashier checks and drafts.

Procedure:

1. Seal or place under control all ledgers containing the records of all accounts subject to withdrawal by check on demand, as listed above.
2. Make an adding machine list of all ledger balances according to the classification; and balance the totals with the general ledger control figures.
3. Test check a number of individual accounts, picked at random, and verify the signatures on the checks with the signatures on the signature cards. List exceptions.
4. Test check a number of business, association and partnership accounts, picked at random, to determine if signatures on the checks compare with the signatures on file covering the withdrawal of funds; and that the persons signing checks and withdrawing funds are authorized to do so. List exceptions.
5. Take off a list of accounts carried in the name of a person as agent, guardian; trustee or conservator. Check for proper resolutions, appointments or authority. List exceptions.
6. Review accounts for activity. Prepare a list in alphabetical order, by date of last activity, of accounts which have had no activity for a year or longer. Make recommendations for segregating in the inactive or dormant ledgers.

REGULAR AND SPECIAL DEMAND DEPOSITS

7. Intercept, review and analyze all return items, or debits made to the accounts during the examination for authenticity. Make a list of any doubtful transactions and confirm.
8. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transactions (Late deposits).
9. If checking account balances are to be directly verified, list all account on tally sheets and follow the procedure as described in Exhibit 42.
10. Take off a list of selected number of checking account customers maintaining business accounts, active from a deposit standpoint, and test check for their use of uncollected funds. Determine if proper attention is being given by the officers to customers use of funds before they are collected.

Questionnaire:

- A. Are monthly statements rendered all checking account customers? What percentage are mailed? Held for call?
- B. What precautions are taken to see that all statements of accounts are mailed or delivered without changes or alterations?
.....
- C. On what day are statements of account prepared?
- D. On what day are statements available for delivery to customers?
- E. Are all statements mailed or ready for delivery on time?
- F. If statements are held for pick up, how long do they remain in the control of the bank?
- G. What control is maintained over cancelled checks and statements waiting to be called for?

BANK AUDITING

- H. Are customers of the bank permitted to have access to the bookkeepers? To see what checks are in? To see what their balance is?
Other reasons?
- I. What procedure is followed in advising customers of the balance of their account?
- J. Do customers call or inquire of the officers of the bank or the bookkeepers as to the name and amount of checks presented against their account for payment? In order to make a deposit to cover?
..... Make a list of such customers.
- K. Does the bank have signature cards on all accounts? Check out a section and list exceptions.
- L. Are proper resolutions or letters of authorization in file for all corporations?
List exceptions
- M. Are proper authorizations on file in connection with all fiduciary accounts? List exceptions
- N. What control is maintained over inactive or dormant accounts?
- O. Are paid and cancelled checks filed satisfactorily?
- P. Do checks in the "Paid File" bear the endorsement guarantee stamp of the payee's bank?
Test check and list exceptions.
- Q. Are all checks in the "Paid File" perforated with the date of payment? Test check and list exceptions.
- R. Do bookkeepers frequently work overtime or after others have gone for the day?
- S. Are bookkeepers rotated frequently?
- T. Are checking accounts of officers or employees commingled with the regular accounts?
List

Audit of Deposits Securing Liabilities Accounts 50

50	TOTAL DEPOSITS SECURING LIABILITIES	\$.....
42	Marginal Deposits	\$.....
44	Undisbursed Loans and Related Deposits	\$.....
46	Customers Guarantee on Established Commercial Credits	\$.....
48	Installment Payment to Auto Dealers	\$.....

The control account *Total Deposits Securing Liabilities* represents the total amount of funds deposited by individuals, corporations, partnerships, with the bank as a special collateral fund, partial surety for loans and other obligations; or subject to agreements whereby the funds can be paid out only when terms of the agreement have been fulfilled.

42 MARGINAL DEPOSITS

Marginal Deposits Account represents the total amount of funds deposited by individuals, corporations and partnerships as cash collateral security for a loan either to themselves or for others.

44 UNDISBURSED LOANS AND RELATED DEPOSITS

Undisbursed Loans and Related Deposits Account represents the net amount of undistributed proceeds of disbursed loans.

46 CUSTOMERS GUARANTEE ON ESTABLISHED COMMERCIAL CREDITS

Customers Guarantee on Established Commercial Credits Account represents the total amount of funds, pledged by individuals, corporations and partnerships as primary or additional security for Letters of Credit, Bills of Exchange or other obligations.

48 INSTALLMENT PAYMENTS AUTO DEALERS

Installment Payments Auto Dealers Account represents the total amount of funds withheld from proceeds of paper covering sale of new or used cars, discounted for auto dealers.

Procedure:

1. Seal or place under control all ledgers containing the records of the subject accounts.
2. Make an adding machine list of all ledger balances according to the classification and balance with general ledger control figures.
3. Review all credits to subject accounts for—and trace to contra source. Verify all amounts.
4. Confirm or verify, when possible and practical, balances and all disbursements. Establish proper authorization for disbursements. List exceptions.

Questionnaire:

- A. Are statements or records of accounting periodically rendered on the subject class of accounts?
..... How often?
- B. Are balances in respective individual accounts being properly handled and in accordance with arrangements and agreements? Comment
.....

CHAPTER XIX

Audit of Escrow and Fiduciary Deposit Accounts 60

60	<i>TOTAL ESCROW AND FIDUCIARY DEPOSITS</i>	\$.....
52	Deposits Under Special Instruction	\$.....
54	Trust Funds or Escrows	\$.....
56	Escrow Funds for Taxes, Ins., F.H.A. or Veterans Loans	\$.....
58	Escrow Funds for Principal and Interest, F.H.A. or Vet. Loans	\$.....

The control account *Total Escrow and Fiduciary Deposits* represents the total amount of funds deposited by individuals, corporations, partnerships and associations or by the Mortgage or Trust Departments of the bank, where the bank is acting in a trusteeship-custodianship or fiduciary capacity.

52 *DEPOSITS UNDER SPECIAL INSTRUCTIONS*

Deposits under Special Instructions Account represents the total amount of funds belonging to individuals, corporations, partnerships which have been attached or segregated under court order and which can only be paid out as directed by order of the court.

54 *TRUST FUNDS OR ESCROWS*

Trust Funds or Escrows Account represents the total amount of funds either deposited by individuals, corporations, partnerships—subject to agreements whereby the funds can be paid out only when the terms of an agreement have been executed; or aggregate cash balances of respective Trust Accounts of the bank awaiting investments or distribution.

56 ESCROW FOR TAXES, INSURANCE, F.H.A. OR VETERANS LOANS

Escrow Funds for Taxes, Insurance, F.H.A. or Veterans Loans Account represents the total amount of funds deposited monthly by mortgagors to provide for the payment of taxes and insurance on the property covered by the mortgage.

58 ESCROW FUNDS FOR PRINCIPAL-INTEREST FOR F.H.A. AND VETERANS LOANS

Escrow Funds for Principal and Interest for F.H.A. and Veterans Loans Account represents the total amount of funds deposited monthly by mortgagors as principal and interest payments which have not been remitted to the holders.

Procedure

1. Seal or place under control all ledgers containing the subject classes of accounts.
2. Test check and review all withdrawals and disbursements from the subject classes of accounts for proper authorization. List exceptions.
3. Test check and review all deposits to the subject classes of account for proper entry. Compare deposits with contra entries. List exceptions.

Questionnaire

- A. Are properly signed or executed agreements on file covering all funds deposited under special instructions, escrow agreements, or court orders?
List exceptions
Comment
- B. Are all withdrawals properly authorized?
List exceptions
- C. Are there funds remaining in "old" accounts which should be distributed and the account closed?
If so, prepare schedule and comment
.....

CHAPTER XX

Audit of Due to Bank Accounts 70

70	TOTAL DUE BANKS	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....
.....	Bank	\$.....

The control account *Total Due to Banks* represents the total balances of deposit accounts subject to withdrawal by check or draft on demand, maintained by other banks.

The smaller banks usually carry a separate account for each bank in the general ledger, while the larger banks, if favored with accounts from other banks, carry all such accounts in a separate ledger in the bookkeeping department, with only a control account on the general ledger.

Banks maintain accounts with other banks for a number of reasons, foremost of which are, to facilitate the rapid collection and exchange of checks and to obtain assistance in credit and financing matters for their customers.

Because of the volume of items deposited and drafts drawn, which results in numerous debits to the respective active accounts, all accounts maintained by banks should be directly verified whenever an audit is undertaken and debits and credits for a representative number of days, prior to date of audit, traced to their source and authenticity established.

Procedure:

1. Seal or place under control all ledgers containing the records of the due to banks accounts subject to withdrawal on demand.
2. Make an adding machine list of all ledger balances according to the classification and compare the totals with the general ledger control figures.
3. Test check a number of accounts, picked at random, to determine if signatures on the checks compare with the signatures on file covering the withdrawal of funds, and that the persons signing checks and withdrawing funds are authorized to do so. List exceptions.
4. Intercept, review, and analyze all return items or debits charged to the accounts during the examination for authenticity. Make a list of any doubtful transactions and confirm.
5. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transactions (Late Deposits).
6. List all accounts on tally sheets and follow the procedures as described in Exhibit 42 for verification purposes.
7. Test check accounts for their use of uncollected funds. Prepare availability for such accounts. Determine if proper attention is being given by the officers to use of funds before they are collected.

Questionnaire:

- A. How often are statements rendered all accounts?
.....
- B. What precautions are taken to see that all statements of accounts are mailed without changes or alterations?
.....
- C. What control is maintained over cancelled drafts?
.....
- D. Does the bank have signature cards on all accounts? Check out and list exceptions
.....
- E. Are proper resolutions or letters of authorization in file for all bank accounts? List exceptions
.....
- F. What control is maintained over inactive or dormant accounts?
- G. Are paid and cancelled drafts awaiting delivery to customers filed satisfactorily?
- H. Do drafts in the "Paid File" bear the endorsement guarantee stamp of the payee's bank? Test check and list exceptions
- I. Are all drafts in the "Paid File" perforated with the date of payment? Test check and list exceptions
- J. Do bookkeepers who handled Due to Bank accounts frequently work overtime or after others have gone for the day? Comment
- K. Are bookkeepers who handle Due to Bank accounts rotated frequently? Comment
- L. Are drafts or transfers drawn against uncollected funds referred to an officer for approval before payment is made? List exceptions.....
.....

CHAPTER XXI

Audit of Official Checks *Accounts 90*

90	<i>TOTAL OFFICIAL CHECKS</i>	\$.....
72	Certified Checks	\$.....
74	Expense Checks	\$.....
76	Administrative Checks/Cashiers Checks	\$.....
78	Dividend Checks	\$.....
82	Christmas Club Checks	\$.....
84	Money Orders	\$.....
86	Due to Local Banks for Return Items	\$.....
88	Cash Letter of Credit	\$.....

The control account *Total Official Checks* represents the total amounts of various classes of checks drawn by the bank on itself, either in payment of bank obligations and expenses; or funds which have been sold customers to use in payment of obligations, where their own personal checks would not be acceptable.

72 *CERTIFIED CHECKS*

Certified Checks Account represents the outstanding balance of checks issued by customers, drawn on the bank, and certified by the bank as to amount, signature and signing authority. When checks are certified, they are stamped "CERTIFIED", which makes them the obligation of the bank. When a check is certified, the amount is immediately charged against the balance of the customer's account and the account Certified Checks credited.

74 *EXPENSE CHECKS*

Expense Checks Account represents the outstanding balance of checks drawn by the bank on itself in payment of sundry operating expenses.

76 *ADMINISTRATIVE OR CASHIERS CHECKS*

Administrative or Cashiers Checks Account represents the outstanding balance of checks drawn by the bank upon itself in payment of bank obligations, or sold to customers for use in paying bills and for other purposes, where personal checks would not be acceptable and where payment by cash would be inconvenient.

78 *DIVIDEND CHECKS*

Dividend Checks Account represents the outstanding balance of checks drawn by the bank on itself in payment of dividends declared by the directors.

82 *CHRISTMAS CLUB CHECKS*

Christmas Club Checks Account represents the outstanding balance of checks drawn by the bank on itself, covering the balance of Christmas Club accounts due respective depositors or members.

84 *MONEY ORDERS*

Money Orders Account represents the outstanding balance of checks, drawn by the bank on itself, sold to customers to use in payment of bills and for use in other transactions where a personal check would be unacceptable and use of currency would be inconvenient.

86 *DUE TO LOCAL BANKS FOR RETURN ITEMS*

Due to Local Banks for Return Items Account represents the outstanding balance of checks drawn by the bank on itself, given in payment of dishonored items previously paid for by the drawer bank, but which, when presented against

the account on which drawn, were found to be drawn against insufficient or uncollected funds or not in good order because of date, signature, endorsement or other reason.

88 CASH LETTER OF CREDIT

Cash Letters of Credit Account represents the outstanding balance of drafts drawn by the bank on itself and payable to the payee under a Letter of Credit.

Procedure:

1. Make an adding machine listing, by class, of all outstanding checks. Balance totals with general ledger control figures.
2. Take off a list, per Exhibit 43, by date of issue, number, name of payee, purchaser and amount, of all checks outstanding, and unpaid over two years old on each class of account.
3. Check out and list by number, all types of unissued official checks and verify sequence of numbers with the register of respective checks outstanding and those unissued under control of stationery or stock room department.
4. Test check all classes of cancelled checks for endorsement and proper cancellation.
5. Test check expense checks against invoices or requisitions and compare names of payee, amounts, authorizations, etc. on check with invoice. Make list of exceptions.

Questionnaire:

- A. Are outstanding Certified Checks, Expense Checks, Administrative or Cashiers Checks, Dividend Checks, Christmas Club Checks, Money Orders, and other official checks proven frequently?
How often? By whom?

OFFICIAL CHECKS ACCOUNTS

- B. Are all checks presented for payment and paid checked for date, endorsements and properly perforated?
- C. Are all classes of paid and cancelled official checks filed satisfactorily? By numerical sequence? List exceptions.
- D. Are any official checks signed in blank? Why? If so, take off a list of such checks by number.
- E. Does the bank retain cancelled certified checks or deliver same to customer on proper receipt?
.....
- F. Were all expense vouchers test checked properly approved?Comment
- G. Is proper control maintained over all unissued official checks? Comment
.....

CHAPTER XXII

Audit of Public Fund Time Deposits Secured by Collateral Accounts 110

110	<i>PUBLIC FUND TIME DEPOSITS</i>	
	<i>SEC. BY COLLATERAL</i>	\$.....
92	State Deposits Secured by Collateral - Time	\$.....
96	County Deposits Secured by Collateral - Time	\$.....
98	City Deposits Secured by Collateral - Time	\$.....
102	Other Public Fund Deposits Secured by Collateral - Time	\$.....

The control account *Total Public Fund Time Deposit Accounts Secured by Collateral* represents the total balances of interest bearing deposit accounts; subject to withdrawal upon notice of not less than thirty days or upon other terms of notice established by the directors, or provided for under the banking laws; maintained by states, counties, cities, municipalities or their instrumentalities; secured or collateralized by a pledge of acceptable securities or a surety bond.

Such deposit accounts are carried on the books of the bank either in the name of the state, county, city or instrumentality, or in the name of the treasurer, secretary or other designated financial officer of the respective state, county, city or instrumentality.

92 *STATE DEPOSITS SECURED BY COLLATERAL-TIME*

State Deposits Secured by Collateral Time Account represents the funds belonging to the state or its instrumentality;

maintained with the bank in a time deposit account subject to withdrawal upon a pre-determined notice; secured by acceptable collateral or a surety bond.

96 *COUNTY DEPOSITS SECURED BY COLLATERAL-TIME*

County Deposits Secured by Collateral-Time Account represents the funds belonging to county, parish, or political subdivisions; maintained with the bank in a time deposit account subject to withdrawal upon a pre-determined notice; secured by acceptable collateral or a surety bond.

98 *CITY DEPOSITS SECURED BY COLLATERAL-TIME*

City Deposits Secured by Collateral-Time Account represents the funds belonging to a city, its taxing body or one of its utilities, such as a gas, electric, or garbage disposal plant; maintained with the bank in a time deposit account subject to withdrawal upon a pre-determined notice, secured by acceptable collateral or a surety bond.

102 *OTHER PUBLIC FUND DEPOSITS SECURED BY COLLATERAL-TIME*

Other Public Fund Deposits Secured by Collateral Time Account represents the funds belonging to a school or park district, or some other municipal entity created by the legislature of the respective state; maintained with the bank in a time deposit account subject to withdrawal upon a pre-determined notice, secured by acceptable collateral or a surety bond.

Procedure:

1. Seal or place under control all ledgers containing the records of the subject accounts.
2. Make an adding machine listing of all ledger balances according to the classifications and compare the totals with the general ledger control figures.

3. Test check a number of accounts picked at random to determine if signature on the withdrawals compare with the signatures on file and that proper resolutions are in file covering the withdrawal of funds. List any exceptions.
4. Intercept, review, and analyze all return items or debits to the accounts made during the examination for authenticity. Make a list of any doubtful transactions and directly verify.
5. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transactions.
6. Test deposits and withdrawals by running a day's work and balancing with daily general ledger totals.
7. Test check a representative number of interest computations for correct figuring. Report on any discrepancies or differences.
8. Verify interest computations and interest credited with agreements covering payment of interest.
9. Trace interest payments to source of credit and verify receipt.
10. Review closed out file. Test check all closing withdrawals with signature cards, authorization and confirm disposition of proceeds.
11. Make a list of all ledger sheets or cards found "out of ledger". Check for reason and determine validity.
12. If accounts are to be directly verified, list on tally sheets and follow procedure as set forth in Exhibit 44.
13. Review accounts for activity. Prepare a list in alphabetical order, by date of last activity, of accounts which have had no activity for a year or longer. Make recommendations for segregating in the inactive or dormant ledgers.

PUBLIC FUND TIME DEPOSITS

Questionnaire:

- A. Does review of the accounts disclose accounts being carried which have an excessive amount of activity? Make a list of such accounts by name, number and balance.
- B. Are proper resolutions or letters of authorization in file covering all accounts? List exceptions.
- C. Are all withdrawals in the "Paid File" perforated with the date of payment? Test check. List exceptions.
- D. Are all withdrawals properly approved? List exceptions.
- E. Are all new accounts and interest arrangements approved by an officer? List exceptions
.....
- F. Is interest credited to accounts at regular intervals? When?
- G. What are the minimum and maximum rates of interest paid?
- H. Are all accounts bonafide time deposit accounts within the interpretation of the Banking Act of 1933-35 or Federal Reserve Act as amended? List exceptions
- I. What notice is required for the withdrawal of time deposits?
Is the provision enforced? Waived by
whose authority?

Audit of U. S. Government Time Deposit Accounts Secured by Collateral 120

120	U. S. GOVT. TIME DEPOSIT AC- COUNTS SEC. BY COLL.-TIME	\$.....
112	U. S. Treas. General Account Secured by Collateral-Time	\$.....
114	Army, Navy, and Air Force Funds Secured by Collateral-Time	\$.....
116	U. S. Treas. Tax and Loan Account Secured by Collateral-Time	\$.....
118	Postal Savings Fund Secured by Collateral-Time	\$.....

The control account *Total U. S. Government Time Deposits Secured by Collateral* represents the total balances of interest bearing deposit accounts, subject to withdrawal upon notice of not less than thirty days, or upon other terms of notice established by the directors or provided for under the banking laws; maintained by the United States Government or one of its instrumentalities, secured or collateralized by a pledge of acceptable securities or a surety bond.

Such deposit accounts are carried on the books of the bank either in the name of the U. S. Treasury, its instrumentality, or in the name of the Treasurer of the United States; Federal Reserve Bank as Agent; or name of designated financial officer of the instrumentality.

112 U. S. TREASURY GENERAL ACCOUNT SECURED BY COLLATERAL-TIME

U. S. Treasury, General Account Secured by Collateral-Time Account represents the funds belonging to the U. S.

Government, carried in the name of the treasurer of the United States, maintained with the bank in a time deposit account, subject to withdrawal upon a predetermined notice; secured by acceptable collateral or a surety bond.

114 ARMY, NAVY AND AIR FORCES FUNDS, SECURED BY COLLATERAL-TIME

Army, Navy and Air Forces Funds, Secured by Collateral-Time Account represents the funds belonging to the respective armed services for payroll or current purposes, maintained with the bank in time deposit accounts, subject to withdrawal upon a predetermined notice; secured by acceptable collateral or a surety bond.

116 U. S. TREASURY TAX AND LOAN ACCOUNT SECURED BY COLLATERAL-TIME

U. S. Treasury Tax and Loan Account Secured by Collateral-Time Account represents the balance of funds paid to the government in settlement of current subscriptions to new treasury issues and sale of U. S. Savings Bonds, and left with the bank in a time deposit account subject to withdrawal upon a predetermined notice, secured by acceptable collateral or a surety bond.

118 POSTAL SAVINGS FUNDS SECURED BY COLLATERAL-TIME

Postal Savings Funds Secured by Collateral-Time Account represents the redeposit of funds accepted by the U. S. Post Office through its Postal Savings System, which are maintained with the bank in a time deposit account, subject to withdrawal upon a predetermined notice, secured by acceptable collateral or a surety bond.

Procedure:

1. Seal or place under control all ledgers containing the records of the subject accounts.
2. Make an adding machine list of all ledger balances according to the classifications and compare the totals with the general ledger control figures.

BANK AUDITING

3. Test check a number of accounts picked at random to determine if signatures on the withdrawals compare with the signatures on file and that proper resolutions are in file covering the withdrawal of funds.
4. Intercept, review and analyze all return items or debits to the accounts during the examination for authenticity. Make a list of any doubtful transactions and verify.
5. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transactions.
6. Test deposits and withdrawals by balancing with daily totals.
7. Check instructions covering withdrawals for compliance. List any differences.
8. Recompute a test list of interest computations. Report any discrepancies with standard practices.
9. Verify the interest computation basis with agreements covering the payment of interest.
10. Trace interest payments to source and verify or confirm interest received.
11. Review closed out file. Test check all closing withdrawals with signature cards, authorization and disposition of proceeds.
12. Make a list of all ledger cards or sheets found out of ledger. Check for reason.
13. If accounts are to be directly verified, list on tally sheets and follow procedure as set forth in Exhibit 44.

Questionnaire:

- A. Does review of the accounts disclose accounts being carried, which have an excessive amount of activity? Make a list of such accounts by name, number and balance.

GOVERNMENT TIME DEPOSITS

- B. Are proper resolutions or letters of authorization in file covering all accounts? List exceptions.
- C. Are all withdrawals perforated with the date of payment? Test check. List exceptions.
.....
- D. Does a test check of accounts disclose a number of accounts which have had no activity for three years or longer? Take off a list by number, name, date of last activity, and amount.
- E. Are all withdrawals properly approved? List exceptions
- F. Are all new accounts and interest arrangements approved by an authorized officer? List exceptions.
- G. Is interest credited to accounts at regular intervals? When?
- H. What are the minimum and maximum rates of interest paid?
- I. Are all accounts bona fide time deposit accounts within the interpretation of the Banking Act of 1933-1935 or Federal Reserve Act as amended?
- J. What notice is required for the withdrawal of time deposits? Is the provision enforced? By whose authority?

Audit of Regular and Special Time Deposit Accounts 140

140	TOTAL REGULAR AND SPECIAL TIME DEPOSITS	\$.....
122	Savings Deposits	\$.....
124	Christmas Club Deposits	\$.....
126	Savings Deposits, Personal Loans	\$.....
128	Time Deposits—Open Accounts	\$.....
132	Inactive Savings Deposits	\$.....
134	Unclaimed Balances	\$.....
136	Certificates of Deposit	\$.....

The control account *Total Regular and Special Time Deposits* represents the total balances of interest bearing deposit accounts; subject to withdrawal upon notice of not less than thirty days or upon other terms of notice established by the By-laws of the bank, the directors, or provided for under the federal or state banking laws; maintained by individuals, partnerships, associations or corporations.

122 SAVINGS DEPOSITS

Savings Deposits Account represents the total balances of interest bearing deposit accounts maintained by individuals, partnerships, corporations, associations, etc., subject to withdrawal upon notice and/or other provision and regulations established under the By-laws of the bank and by the federal or state bank supervisory authorities. Such accounts are represented by a pass book or other form of receipt kept by the depositor and payments of such funds are made only to the depositor, or to his order when accompanied by the pass book and properly executed withdrawal order.

124 CHRISTMAS CLUB DEPOSITS

Christmas Club Deposits Account represents the total balances of deposit accounts made by members through weekly payments made to a special account in their name throughout the year, the accumulated balance of which is delivered to them the latter part of November of each year for the purchase of Christmas gifts and other purposes.

126 SAVINGS DEPOSITS—PERSONAL LOANS

Savings Deposits, Personal Loans Account represents the total balances of interest bearing deposit accounts maintained in conformance with the By-laws of the bank in the name of an individual, representing periodical repayments on a personal loan under a plan which provides for payments to be deposited in an account until the balance equals the amount of the note, at which time the balance is applied against the note. This is in contrast to the more generally used plan under which such payments are directly applied to a reduction of the loan balance. A pass book is used to record such deposits or "payments".

128 TIME DEPOSITS—OPEN ACCOUNTS

Time Deposits—Open Accounts Account represents the total balances of interest bearing deposit account subject to special terms of withdrawal, but not less than thirty days notice, maintained with the bank by individuals, partnerships, and corporations.

132 INACTIVE SAVINGS ACCOUNTS

Inactive Savings Accounts Account represents the total balances of savings accounts in which no deposits or withdrawals have been made by the depositors for a long period of time and which, for reasons of safety, are segregated under separate control, subject to special rules governing withdrawals or reinstatement to the active ledger.

134 UNCLAIMED BALANCES

Unclaimed Balances Account represents the total balances of old inactive savings or checking accounts subject to the provisions of escheat laws of the respective state in which the bank does business.

136 CERTIFICATES OF DEPOSIT

Certificates of Deposit Account represents the total balances of interest bearing time deposit accounts; in the name of individuals, corporations, partnerships, associations; evidenced by certificates bearing a fixed rate of interest and definite date of maturity. Interest ceases at maturity. If not presented for payment or renewal at maturity date, the principal amount, plus interest, becomes payable on presentation of the certificate duly endorsed, and should be transferred to the control account Demand Certificate of Deposits for legal reserve and other purposes.

Procedure:

1. Seal or place under control all savings ledgers and ledgers containing the records of the subject classified time accounts.
2. Make an adding machine list of all ledger balances according to the classification and compare the totals with the general ledger control figures.
3. Spot check a number of accounts to verify the signatures on the withdrawal slips with the signature on the signature cards.
4. Test check a number of accounts picked at random to determine if signatures on the withdrawals compare with the signatures on file, and that proper resolutions are in file covering the withdrawal of funds.
5. Intercept, review and analyze all return items or debits to the accounts made during the examination for authenticity. Make a list of any doubtful transactions and verify.
6. Spot check deposit slips for date alteration. Make a list of such items and check out to be sure they are in order and arise through normal business transactions.
7. Test deposits and withdrawals for a representative number of days, by running and balancing daily work with daily totals.

REGULAR AND SPECIAL TIME DEPOSITS

8. Test check interest computations on a representative number of accounts. List any discrepancies or differences.
9. Review closed out file. Test check all closing withdrawals with signature cards or authorization and confirm or verify disposition of proceeds.
10. Make a list of all ledger cards found "out of ledger". Check for reason.
11. If savings account balances are to be directly verified, all accounts should be listed on tally sheets and the procedure as described in Exhibit 44 followed.

Questionnaire:

- A. What procedure is followed in advising customers of the balance of their account?
- B. What control is maintained over inactive or dormant accounts?
- C. Does a check review of ledgers disclose accounts carried in the savings ledgers which have a lot of activity? Make a list of all such accounts, in alphabetical order, showing number of account, balance, and number of deposits and withdrawals for period.
- D. In examining the accounts, did you find accounts carried in the name of an agent, trustee, or conservator? Are proper resolutions or letters of authorization on file? List exceptions.
- E. Are proper resolutions or letters of authorization in file on all accounts carried in the name of a corporation or partnership? List exceptions.
- F. Do any bookkeepers frequently work overtime or after others have gone for the day? Who?
.....

BANK AUDITING

- G. Are all withdrawals perforated with the date of payment? Test check paid file. List exceptions.
- H. Does a test check of accounts disclose a number of accounts in the active ledger which have had no activity for three years or longer? Take off a list by number, name, date of last activity and amount.
- I. Are all savings withdrawals over \$..... properly approved by the manager of the department or other designated officer? List exceptions.
- J. Are all new savings accounts approved by the manager or other designated officer? List exceptions.
- K. How often are savings ledgers proven?
- L. Is interest credited to all accounts at regular intervals? When? Comment
- M. What are the minimum and maximum rates of interest paid?
- N. Are all savings accounts bona fide thrift accounts? List exceptions.
- O. What notice is required for the withdrawal of savings deposits? Is the provision enforced?
- P. Verify the reason for any ledger card being "out of ledger"?
- Q. Are any savings accounts carried with a debit balance (overdrawn)? Make a list.
- R. Are any checks or drafts charged to savings accounts? List and give reason.

Audit of Capital Accounts 150

150	TOTAL CAPITAL ACCOUNTS	\$.....
142	Capital Stock Common	\$.....
	No. of Shares	\$.....
	Unissued	\$.....
142-1	Capital Stock Preferred-A-	\$.....
	No. of Shares	\$.....
	Unissued	\$.....
142-2	Capital Stock Preferred-B-	\$.....
	No. of Shares	\$.....
	Unissued	\$.....
144	Capital Notes and Debentures	\$.....
146	Surplus	\$.....
148	Undivided Profits	\$.....

The control account *Total Capital Accounts* represents the total amount of the stockholders investment in the bank.

The various accounts represent the classes and kinds of stock purchased by individuals, corporations, partnerships and associations as an investment; *and* net earnings from the operations of the bank which have not been distributed as cash or stock dividends. Shares of stock are usually issued in values of \$100.00 par value each, although they can be issued in various par value amounts, depending on circumstances.

Preferred Stocks, Capital Notes and Debentures are issued to cover a particular contingency and usually carry provisions for redemption or retirement in cash or in common stock, if and when such stocks, which are a lien against the interests of the common stockholders, can be retired through the sale of common stock or out of earnings.

142 CAPITAL STOCK—COMMON

Capital Stock — Common Account represents the par value of the investment of the stockholders in the common

stock of the bank. Common stock carries all rights of management and after preferred stock and debentures, shares in the net worth of the bank.

142-1 CAPITAL STOCK—PREFERRED—CLASS A

Capital Stock—Preferred—Class A Account represents the par value of the investment of stockholders in the preferred stock of the bank. Preferred stock is what the name implies. It is given a preference over the common stock in case of liquidation, and at all times, as to dividends which rates are fixed. Dividends are cumulative or non cumulative. Shares of preferred stock also sometimes carry, depending on provisions, other rights as to participation in management.

142-2 CAPITAL STOCK—PREFERRED—CLASS B

Capital Stock—Preferred—Class B Account represents the par value of the investment of stockholders in secondary preferred stock of the bank, which in case of liquidation of the bank, has lien rights after the Class A stock.

144 CAPITAL NOTES OR DEBENTURES

Capital Notes or Debentures Account represents the outstanding amount of notes or debentures sold by a bank, usually when they cannot sell additional common stock or lawfully issue additional preferred stock to obtain necessary funds.

146 SURPLUS

Surplus Account represents the total amount of funds originally paid in by the stockholders as part of their original investment to provide for contingencies; and earnings from operations which have not been distributed as cash dividends or capitalized by the issuance of additional stock.

148 UNDIVIDED PROFITS

Undivided Profits Account represents the amount of earnings from operations which have not been distributed as cash dividends; set aside in special accounts as reserves or for other purposes; or transferred to surplus account.

AUDIT OF CAPITAL ACCOUNTS

The Undivided Profits account is the clearing account of the bank to which, at periodical close out dates (usually June 30 and December 31), the balance of all earning accounts are transferred, and against which all expense accounts are closed out and net profits for the period distributed to stockholders as dividends; or added to reserve or surplus accounts in accordance with financial requirements.

Procedure:

1. Prepare a schedule, per Exhibit 45, of the stockholders of each class of stock by name, numbers of certificates, and number of shares registered in each name.
2. Make an adding machine listing of the outstanding shares of the various types of stock from the stockholders' ledgers. Confirm the respective amounts of capital by multiplying the number of shares outstanding by the par value of the stock. Balance with general ledger.
3. Make an adding machine listing of the stubs in the various stock certificate books and balance with the respective stockholders' ledgers.
4. Check the respective stock certificate books to be sure that all certificates, both issued and unissued, are in numerical sequence and that all unissued certificates are present and accounted for.
5. Review all classes of stock certificates cancelled or exchanged since or the last examination, to determine if all certificates are correctly endorsed, properly cancelled and filed in the respective stock certificate book.
6. Prepare a transcript of the Surplus Account, per Exhibit 46, showing all debits and credits since Check for proper author-

- ization covering additions and withdrawals.
7. Prepare a transcript of the Undivided Profits Account, per Exhibit 46, showing all debits and credits since Check for proper authorization.
 8. Trace all contra entries to the Undivided Profits Account from the Income and Expense Account. Determine proper authority.

Questionnaire:

- A. Were any unissued stock certificates found signed in blank? List
- B. Were all stock transfers of respective classes of stock properly recorded? List exceptions.
.....
- C. Were all stock certificates of respective classes of stocks exchanged or transferred since found to be properly endorsed, cancelled and filed? List exceptions.
.....
- D. Were all charges and credits to Surplus properly approved by the Board of Directors?
- E. Were all debits and credits to the Undivided Profits Account properly authorized and approved by the Board of Directors as to purpose and amount?
.....
- F. Were all contra entries to the Undivided Profits Account from the Income and Expense Accounts correctly charged to the proper accounts? List exceptions..

CHAPTER XXVI

Audit of Reserve Accounts 170

170	<i>TOTAL RESERVES</i>	\$
152	Reserve for Depreciation	\$
154	Reserve for Dividends	\$
156	Reserve for Income Tax	\$
158	Reserve for Interest	\$
162	Reserve for Insurance	\$
164	Reserve for Municipal Taxes	\$
166	Reserve for Real Estate Taxes	\$
168	Other Special Reserves	\$
168-1	.....	\$ .....
168-2	.....	\$ .....
168-3	.....	\$ .....
168-4	.....	\$ .....

The control account *Total Reserves* represents the total amounts of funds set aside out of earnings in respective accounts, to provide either for payment of expenses when they come due, such as interest, insurance, dividends; a write-down of the value of fixed assets, such as furniture and fixtures, through a depreciation schedule based on years of use; funds set aside in anticipation or in estimation of losses in connection with the bank's investment or loan portfolio; or funds set aside to provide for the retirement of notes, debentures and/or preferred stock.

152 RESERVE FOR DEPRECIATION

Reserve for Depreciation Account represents the total amount of funds periodically set aside out of earnings covering that portion of the cost of the items being depreciated over its life expectancy, from date of purchase to present date.

In connection with depreciation reserves, the usual practice is to maintain detailed subsidiary ledgers covering the

following classes of items, capitalized in the Properties Account 125.

- Bank Premises
- Bank Premises Equipment
- Buses—Cars—Motorcycles
- Office Furniture and Fixtures
- Office Machinery and Equipment
- Fixtures—Equipment Leasehold Improvements

154 RESERVE FOR DIVIDENDS

Reserve for Dividends Account represents the total undistributed amount of funds periodically set aside out of earnings during the current year covering normal cash dividend requirements on various classes of stock.

As dividends are declared by the directors, the amount so declared payable, is charged to this account and credited to the account Dividends Declared But Not Payable 242. On the date the dividend is payable, the amount Dividends Declared But Not Payable is charged and the account Dividend Checks—78, credited with the amount which is being distributed by check.

156 RESERVE FOR INCOME TAX

Reserve for Income Tax Account represents the total undistributed amount of funds periodically set aside out of earnings in anticipation of estimated taxes payable on income. When the actual amount of taxes due is determined, the reserve account is charged and the account Accrued Taxes Payable—186 credited with the amount. The funds remain in this account until the date when payment is made to the taxing authorities.

Differences between the amount of actual tax due and the amount set aside in the reserve account are usually adjusted either by a charge or credit to expense or a charge or credit to the account Undivided Profits 148.

158 RESERVE FOR INTEREST

Reserve for Interest Account represents the total undistributed amount of funds periodically set aside out of earn-

ings in anticipation of estimated expenditures covering interest on the various classes of Time Deposits Accounts and Debentures.

In connection with interest reserves, it is general practice to maintain subsidiary accounts covering the following classes of accounts.

Public Demand Funds

Public Time Funds

Savings Deposits

Time Deposits—Open Accounts

Notes or Debentures

When the amount of interest earned for the period is determined for the particular account, the amount is charged to the respective reserve account and credited to the account Accrued Interest Payable—182, where it remains until the date of actual distributions or payment.

Differences between the actual amount of interest due and payable and the amount set aside in the reserve account, are either adjusted by a charge or credit to expense, or by a charge or credit to the account Undivided Profits—148.

162 RESERVE FOR INSURANCE

Reserve for Insurance Account represents the total undistributed amount of funds periodically set aside out of earnings to cover insurance premiums when due. This account is generally used only in connection with life insurance or annuity payments under a Pension or Retirement Plan, as the premiums on other bank insurance, such as fire, comprehensive coverage, blanket bond, burglary, etc., are capitalized when paid and amortized over the life of the policy.

164 RESERVE FOR MUNICIPAL TAXES

Reserve for Municipal Taxes Account represents the total undistributed amount of funds periodically set aside out of earnings in anticipation of taxes due the municipality, such as capital stock or franchise tax.

When the actual amount of tax due is known, the reserve account is charged and the account Accrued Taxes Payable

—186 is credited with the amount where the funds remain until the date when payment is due to be made to the taxing authorities.

Differences between the actual amount of tax due and payable and the amount set aside in the reserve account are usually either adjusted by a charge or credit to expense or a charge or credit to the account Undivided Profits—148.

166 RESERVE FOR REAL ESTATE TAXES

Reserve for Real Estate Taxes Account represents the total undistributed amount of funds periodically set aside out of earnings in anticipation of estimated taxes due on real estate properties owned by the bank. When the actual amount is known, the reserve account is charged and the account Accrued Taxes Payable—186 credited. The funds remain in the account until the date when payment is to be made to the taxing authorities.

Differences between the actual amount of tax due and the amount set aside in the reserve account are usually adjusted either by a charge or credit to expense or a charge or credit to the account Undivided Profits—148.

168 OTHER SPECIAL RESERVES

Other Special Reserves Account represents the total undistributed amount of funds periodically set aside out of earnings covering a future known expenditure, such as for retirement of preferred stock or debentures. Such expenditures are or should be either specifically authorized by the directors, or made only with their recorded approval.

Procedure:

1. Prepare a transcript of each of the respective reserve accounts, per Exhibit 46, from or since last examination.
2. Reconcile the monthly charges to the expense account against the credits to the respective reserve accounts.

AUDIT OF RESERVE ACCOUNTS

3. Review all charges to the reserve accounts for proper authority. Trace disposition to respective account or verify payments.
4. Test check computations for determining periodical charges to expense and credits to respective reserve accounts. Comment on exceptions.

Questionnaire:

- A. Are present reserves adequate for the purpose intended? Comment and list exceptions.
- B. Are all charges to the expense accounts and contra credits properly posted to the respective reserve accounts? Comment and list exceptions.
.....
- C. Are all debits to the respective reserve accounts proper charges? Comment
.....
- D. Are all charges to the respective reserve accounts properly authorized? Properly approved?
..... Comment

Audit of Income Collected but Unearned Account 180

180	TOTAL INCOME COLLECTED BUT UNEARNED	\$.....
172	Unearned Discount	\$.....
176	Unearned F.H.A. and Other Service Fee Income	\$.....

The control account *Total Income Collected But Unearned* represents the net amount of interest on loans paid in advance and fees for servicing F.H.A. and other loans paid at time of sale which have not been earned up to last accrual date.

As the interest on loans is earned and fees for servicing F.H.A. and other loans become due, the respective accounts are charged for the amount accrued and the respective account credited.

If interest is payable at maturity, interest is accrued periodically and charged to the asset account 129 Interest Earned But not Collected. If fees are payable at a future date or when billed after services have been performed, the fees as earned are charged to the asset account 131 Other Income Earned or Accrued But Not Collected.

172 UNEARNED DISCOUNT

Unearned Discount Account represents the unearned portion of interest on loans paid in advance.

176 UNEARNED F.H.A. AND OTHER SERVICE FEE INCOME

Unearned F.H.A. and Other Service Fee Income Account represents the unearned portion of fees paid in advance.

Procedure:

1. Verify all credits to the Unearned Discount account since by comparing the daily entries with the totals as reported on the tellers proof or blotter sheet.
2. Verify all credits to the Unearned F.H.A. and Other Service Fee Income account since by comparing daily entries with the totals as reported on the tellers proof or blotter sheet.
3. Verify the correctness of the daily total of credits to the Unearned Discount account by refooting the columns on the tellers proof or blotter sheet. List exceptions.
4. Verify the correctness of the daily total of credits to the Unearned F.H.A. and Other Service Fee Income account by refooting the column on the tellers proof or blotter sheet. List exceptions.
5. Test check all rebates or refunds of Unearned Discount or Unearned F.H.A. and Other Service Fee Income allowed for correctness by refiguring. Check for proper authority. List exceptions.
6. Trace all withdrawals from the Unearned Discount account and Unearned F.H.A. and Other Service Fee income account to the proper income account. List exceptions.
7. Audit the Unearned Discount account by listing all notes by amount and number of days to maturity on work sheets under columns provided for each rate of interest, per Exhibit 47. Then either compute the unearned discount on each note, adding the totals of each column to get the total of unearned discount; or multiply the face amount of the note by the number of days to maturity, add the columns and compute the interest on the accumulated totals for one day. The combined totals under each rate of discount computa-

tation should balance with the Unearned Discount account balance. Check out any differences and adjust.

8. Audit the Unearned F.H.A. and Other Service Fee Income account in the same manner, by listing all mortgages by amount, etc. (same as procedure No. 7)
9. Adjust differences, if any, in the Unearned Discount account and Unearned F.H.A. and Other Service Fee Income by debiting or crediting the Undivided Profits Account.

Questionnaire:

- A. What authority is required for rebate of unearned discount? Comment
- B. Are all withdrawals from the Unearned Discount account, except rebates, properly authorized?
Comment
- C. What authority is required for a rebate of Unearned F.H.A. and Other Service Fees?
Comment
- D. Are all withdrawals from the Unearned F.H.A. and Other Service Fee Income account properly authorized? Comment

CHAPTER XXVIII

Audit of Expenses Accrued and Unpaid Account 190

190	<i>TOTAL EXPENSES ACCRUED AND UNPAID</i>	\$.....
182	Accrued Interest Payable	\$.....
184	Accrued Expenses Payable	\$.....
186	Accrued Taxes Payable	\$.....

The control account *Total Expense Accrued and Unpaid* represents the total amounts of various individual interest, expense and tax items, accrued for a fiscal or annual period which has ended, and which are set aside for disposition or payment at the time when such amounts become due or payable.

Such accounts represent amounts previously and periodically charged to expense and credited to respective reserve accounts under the accrual system, and transferred from respective reserve accounts to respective Accrued But Unpaid Accounts when the period for which the amounts were accrued ends. For example: 1/12 of the estimated Real Estate Tax for the current year has been charged to expense and like amount credited to Reserve for Real Estate Taxes each month from January through December. The Real Estate tax bill for the previous calendar year is due and payable April 1st. To correctly reflect the true financial condition, the amount set aside in the reserve account is transferred on December 31st to the Expenses Accrued But Unpaid account; Accrual Taxes Payable, where it remains until April 1st, when the account is charged and a check in payment of the taxes is issued.

182 ACCRUED INTEREST PAYABLE

Accrued Interest Payable Account represents the amount of interest, for a period, accrued but unpaid or undistributed on Savings Accounts, Certificates of Deposit, Debentures and other instruments on which the bank is obliged to pay interest.

184 ACCRUED EXPENSES PAYABLE

Accrued Expenses Payable Account represents the amounts of funds accrued over a fixed period, but unpaid or undistributed, covering any specific expenditure, service or item.

186 ACCRUED TAXES PAYABLE

Accrued Taxes Payable Account represents the amount of funds accrued over a fixed period but unpaid, covering federal, state or other types of taxes owed.

Procedure:

1. Prepare a transcript, per Exhibit 48, of each account from or the last close out date, or date of last examination.
2. Verify all credits to respective accounts by comparing with corresponding monthly charges to expense accounts.
3. Verify and trace all debits to respective accounts with checks or credits used in final payment or disposition.

Questionnaire:

- A. Are monthly charges to expense and credits to respective accrued accounts sufficient for all requirements? Comment on exceptions, if any.
.....
- B. Are monthly charges to expense and the periodical charges to respective accrual accounts properly authorized? By whom?

AUDIT OF EXPENSES ACCRUED

- C. Are there excesses or deficiencies in any of the respective accounts? What disposition is made of them?
- D. Are dispositions of the excesses or deficiencies properly authorized? Detail the exceptions.
.....
.....
- E. Did you call the attention of management to excesses or deficiencies so that proper steps can be taken to adjust the account accordingly?

CHAPTER XXIX

Audit of Current Income from Operations Account 220

220	CURRENT INCOME FROM OPERATIONS ACCOUNTS	\$.....
192	Interest Earned; Loans and Discounts	\$.....
194	Interest Earned; Investments	\$.....
196	Service Charges and Fees on Loans	\$.....
198	Service Charges on Checking A/C	\$.....
202	Other Charges and Fees	\$.....
204	Commissions	\$.....
206	Exchange Charges	\$.....
208	Rents Received	\$.....
212	Safe Deposit Box Rents	\$.....
214	Trust Department Fees	\$.....

The detail of the income accounts, which make up the respective subsidiary accounts, 192 to 214 inclusive, are set up on separate schedules as shown in Exhibit 24.

The control account *Total Current Income From Operations* represents the total current balances of the various cash and accrual income accounts which have not been closed out to the account Undivided Profits 148. (This is usually done as of June 30 and December 31st of each year).

Income of the bank falls into several principal categories:

- A. Income received as interest earned from the investment of deposits and capital funds in the various types of loans and investments.
- B. Income received as fees or commissions for services rendered or performed.
- C. Income received as rent from the leasing of property owned by the bank to others.

- D. Income received as service charges for expenses incurred in rendering services in connection with checking accounts.

If a bank is operating on a cash basis, it considers all interest paid, fees collected or rents received, etc., as current income when paid or received and takes them into respective earning accounts as paid or received.

If a bank is operating on an accrual basis, it considers interest, fees and rents, etc., as income only when earned and takes them into current earnings daily, weekly or monthly, as provided for under the particular accrual system.

Due to the fact that the gross amount of many of the classes of income, such as service charges, rents, exchange, are consistent month by month, it is the usual practice to currently credit these amounts to respective income accounts as received, only setting up accrual accounts for major items of income, such as interest income from investments and loans and discount from loans.

Under an accrual system, items of interest income paid in advance are credited to an Unearned Discount account. Against this account is charged the amount of income earned daily, weekly or monthly, as the case might be, which is credited to respective interest income accounts. The amounts periodically charged against the Unearned Discount account should, in time, offset the amounts previously credited to the respective Unearned Discount account.

Items of interest income paid at maturity or at a periodical future date or paid after services have been rendered, under an accrual system, are taken into income daily, weekly or monthly, by charging respective Income Earned But Not Collected accounts daily, weekly or monthly, as the case might be, with the amounts so earned, and crediting respective income accounts with the amounts so accrued. Such income items, when due and paid, are credited to the respective Income Earned But Not Collected account, offsetting the amounts which have been periodically charged against the respective accrual accounts.

From a tax reporting and cost distribution standpoint, it is necessary that all major sources of income be segregated.

They are, therefore, separated into the following major control accounts, each of which has a number of subsidiary accounts as detailed in Exhibit 24.

192 INTEREST EARNED; LOANS AND DISCOUNTS

Interest Earned; Loans and Discounts Account represents the amount of interest income which has accrued (or paid, if on a cash basis) during the current period from investments in the various types and classes of loans and discounts.

194 INTEREST EARNED; INVESTMENTS

Interest Earned; Investments Account represents the net amount of interest income which has accrued (or paid, if on a cash basis) during the current period from investments in the various types and classes of bonds and securities.

196 SERVICE CHARGES AND FEES ON LOANS

Service Charges and Fees on Loans Account represents the amount of late charge and servicing fees which have been collected during the current period on F.H.A., Installment and Auto loans.

198 SERVICE CHARGES ON CHECKING ACCOUNTS

Service Charges on Checking Accounts Account represents the amount of income received during the current period from charges based on analysis of accounts, minimum balance charges, or from any of the various types of service charges for services rendered checking account customers based on activity and net average, or minimum balance maintained.

202 OTHER CHARGES AND FEES

Other Charges and Fees Account represents the amount of income received during the current period from charges and fees in connection with issuing official checks, handling stop payment orders, returning checks for insufficient funds, etc.

204 COMMISSIONS

Commissions Account represents the amount of income received during the current period from commissions paid for letters of credit issued, travellers checks sold and collection items handled.

206 EXCHANGE CHARGES

Exchange Charges Account represents the amount of income received during the current period from fees for cashing checks and from the purchase or sale of foreign exchange, etc.

208 RENTS RECEIVED

Rents Received Account represents the amount of income received during the current period from the leasing to others of property owned by the bank.

212 SAFE DEPOSIT BOX RENT

Safe Deposit Box Rent Account represents the amount of income received during the current period from the leasing of safe deposit boxes.

214 TRUST DEPARTMENT FEES

Trust Department Fees Account represents the amount of gross income received during the current period from fees for servicing trust accounts.

Procedure:

1. Review each principal and subsidiary account. Re-foot each individual account.
2. Reconcile and verify accrued interest on investments and loans with debits to Interest Earned But Not Collected Account.
3. Verify by comparing all transfers to Interest Earned; Investments Account from Unearned Discounts Account and from various Income Earned But Not Collected Accounts.

BANK AUDITING

4. Test check the computation of other income such as Service Charges, Commissions, Fees, etc. Spot prove individual items to their source and to respective accounts of original entry.
5. Spot test and refigure Exchange Charges.
6. Spot test and refigure the analysis of accounts for proper service or analysis charges.
7. Prove and verify all interest computations in connection with the sale of securities from the bank's account made since the last examination. Trace and verify entries to proper accounts.

Questionnaire:

- A. Are proper and sufficient charges being collected for all types of services?Comment
.....
- B. Are respective income accounts properly set up? Comment
.....
- C. Do respective income accounts correctly reflect all income accrued items? Comment
.....
- D. Are any commissions, fees or earnings taken into current earnings which should be properly accrued or deferred? Comment
.....
- E. Are all income accounts properly closed into the Undivided Profits account at the end of the period? Comment
.....

CHAPTER XXX

Audit of Recoveries and Profits Accounts 230

230	RECOVERIES AND PROFITS	\$
222	Recoveries on Loans	\$
224	Sundry Recoveries	\$
226	Profits From the Sale of Securities	\$
228	Profits From the Sale of Other Property	\$

The control account *Total Recoveries and Profits* represents the total current balances of various accounts, which show the total recoveries of amounts previously charged off as losses; and profits realized from the sale of securities or other assets, which have not been closed out to the account Undivided Profits 148. (This is usually done as of June 30 and December 31 of each year.)

222 RECOVERIES ON LOANS

Recoveries on Loans Account represents the amounts realized or recovered during the current period from loans, discounts and overdrafts, previously charged off or written down.

224 SUNDRY RECOVERIES

Sundry Recoveries Account represents the amounts realized or recovered during the current period from assets other than loans, discounts or overdrafts, previously charged off or written down.

226 PROFITS FROM THE SALE OF SECURITIES

Profits From the Sale of Securities Account represents the profits realized from the sale of investment securities from the bank's own investment portfolio.

228 PROFITS FROM THE SALE OF OTHER PROPERTY

Profits from the Sale of Other Property Account represents the profits from the sale of other assets owned by the bank, such as buildings, furniture, etc.

Procedure:

1. Prepare a transcript, per Exhibit 49, of each account, showing all debits and credits since
2. Reconcile and trace to source, funds tendered in payment of items carried under Recoveries on Loans and Sundry Recoveries.
3. Reconcile the proceeds from the sale of securities sold since from the bank's investment portfolio with the book value as shown in the investment ledger and the credit to the Profit From the Sale of Securities Account.
4. Verify the proceeds of the sale of securities sold from the bank's investment portfolio with the market quotations as of date of sale.
5. Verify the computation of interest collected in connection with the sale of securities from the bank's investment portfolio.
6. Reconcile the sale price of other properties sold since with the book value as shown on the properties ledger and the credit to Profits From the Sale of Other Property account.
7. Take off a schedule, per Exhibit 50, of all "live" charged off items, by date of instrument, name or description, date of charge off, amount of charge off, present balance. Comment on progress to date in effecting collection.

Questionnaire:

- A. Do all credits to the Recoveries on Loans Account indicate whether or not payment is partial or in full payment of the obligation?
Comment

AUDIT OF RECOVERIES AND PROFITS

- B. Are all payments made in connection with Recoveries on Loans properly endorsed on the note? List exceptions and give reason for not doing so.
- C. Are all credits to Sundry Recoveries Account properly credited against the original charge off? List exceptions and give reasons for not doing so.
- D. Are all charged off items being properly followed for collection? Comment
- E. How often are charged off items referred to the directors or the bank's legal counsel?

CHAPTER XXXI

Audit of Other Liabilities

Accounts 260

260	<i>TOTAL OTHER LIABILITIES</i>	\$.....
232	Accounts Payable	\$.....
234	Tellers Difference	\$.....
236	Hold Over Credits	\$.....
238	Letters of Credit Outstanding	\$.....
242	Dividends Declared But Not Payable	\$.....
244	Rediscounts	\$.....
246	Acceptances	\$.....
248	Advances Sec. by Pledges of Sec.	\$.....
252	Sundry Liabilities	\$.....

The control account *Total Other Liabilities* represents the total balances of various other liability accounts, which do not allocate themselves into standard control classifications, such as Accounts Payable or accounts set up covering miscellaneous transactions or suspense liabilities not otherwise provided for. From a management and control standpoint, such accounts are separated into sub classifications as detailed.

232 *ACCOUNTS PAYABLE*

Accounts Payable Account represents the total amount of funds owed by the bank on open account to creditors covering the purchase of machinery, equipment, stationery, supplies, or other similar property.

234 *TELLERS DIFFERENCE*

Tellers Difference Account represents the net amount of miscellaneous cash overages of tellers currently not located

or claimed. Net overages, at the end of the accounting period, are transferred either to the Undivided Profits Account 148 or Sundry Recoveries Account 224.

236 *HOLD OVER CREDITS*

Hold Over Credits Account represents the amount of Miscellaneous credits to other liability accounts which were not posted to the respective account during the current day's business and are held over for posting until the following day.

238 *LETTERS OF CREDIT OUTSTANDING*

Letters of Credit Outstanding Account represents the total amount of the bank's net liability under letters of credit, which it has issued or guaranteed in behalf of individuals or corporations. As drafts drawn by customers under letters of credit are presented to, and paid by, the bank, this account is reduced, as is the asset contra account Customers Liability under Letters of Credit 173.

242 *DIVIDENDS DECLARED BUT NOT YET PAYABLE*

Dividends Declared But Not Yet Payable Account represents the amount of the dividend declared by the Board of Directors to be paid at a definitely determined future date.

Dividends represent a portion of earnings set aside from Undivided Profits for distribution to the stockholders. As such, they become a liability when declared. In order to properly record and disclose this liability, such funds are placed in the account Dividends Declared But Not Yet Payable Account until the date of payment, when checks for dividends are distributed and the funds are transferred to the Dividend Checks Account 78, under the classification Total Official Checks 90.

244 *REDISCOUNTS*

Rediscounts Account represents the total amount of secured and unsecured notes of individuals, corporations and

partnerships originally held in the bank's own portfolio, which it has endorsed over to the Federal Reserve Bank or correspondent bank for an advance of funds or other borrowing purposes. (The character of notes which are eligible for dediscouting with the Federal Reserve Bank are determined from time to time by the Board of Governors of the Federal Reserve System.)

246 ACCEPTANCES

Acceptances Account represents the total amount of bills of exchange or drafts which the bank has accepted or guaranteed payment of, by writing across the face of the instrument the word "ACCEPTED". In accepting any draft or bill of exchange, the bank exchanges its credit for that of the drawee of the draft and guarantees that the draft or bill of exchange will be paid at maturity by either the drawee, or in the event of dishonor by the bank.

248 ADVANCES SECURED BY PLEDGES OF SECURITIES

Advances Secured by Pledges of Securities Account represents the total amount of cash or securities it has borrowed from others, usually a correspondent bank or directors, against a pledge of securities, for the purpose of obtaining collateral for the bank's borrowing; to secure public fund deposits; or other purposes.

252 SUNDRY LIABILITIES

Sundry Liabilities Account represents the balance of miscellaneous accounts payable items not otherwise classified, such as amounts owed to branch offices, when their liabilities (deposits) are greater than their assets (loans); amounts owed to officers for reimbursement of expenses, etc.

Procedure:

1. Review all debits and credits to Accounts Payable Account from or since last examination for proper order and disposition of all items.

OTHER LIABILITIES

2. Prepare a schedule, per Exhibit 51, showing by date, payee, reason or purpose, and amount, all open and outstanding items from Accounts Payable Account as of date of examination. Balance with general ledger control account. Check for any irregularities.
3. Prepare a transcript, by teller, per Exhibit 52, of the Tellers Difference Account, from or since last examination. List debits and credits by date and explanation. Check for date or amount continuity.
4. Review and compare the difference of the individual tellers by periods. Comment.
5. Review the Hold Over Credit Account from for order and proper disposition.
6. Prepare a schedule, per Exhibit 53, of all open Hold Over Credit items. Trace to corresponding contra entries.
7. Verify all charges to Letters of Credit Outstanding Account by tracing and comparing all debits to the account with credit to Customers Liability Under Letters of Credit Account and debits to the checking account or loan account of customers in payment of drafts drawn under letters of credit and presented for payment.
8. Prepare a transcript, per Exhibit 54, of Dividends Declared But Not Yet Payable Account. Compare credits to this account with corresponding debit to Undivided Profits Account and debits to this account with credits to Dividend Checks Outstanding Account.
9. Review minutes of the Board of Directors meetings for proper authorization covering declaration of dividends.

BANK AUDITING

10. Prepare a transcript, per Exhibit 55, of the Rediscount Account from or since last examination by number, name, date of note, date or rediscount, maturity, rate of interest and amount.
11. Review each rediscount for proper authority and approval by the Board of Directors. List exceptions.
12. Prepare a transcript, per Exhibit 56, of all Acceptances executed since or last examination by date of instrument, drawer, payee, maturity, amount, date of acceptance. Test check contra entries.
13. Check all Acceptances outstanding against the credit files and minutes of the loan committee for proper authorization. List exceptions.
14. Prepare a transcript, per Exhibit 57, of Advances Secured by Pledge of Securities Account by date, security and purpose. Check for proper authorization of the Board of Directors.
15. Check the investment security ledger for proper notation in recording securities pledged to secure Advances Secured by Pledges of Securities Account.
16. Review the Sundry Liabilities Account from to date, or since last examination, to determine authority, proper order and disposition of all items.
17. Prepare a schedule, per Exhibit 58, of all open Sundry Liabilities items by date, payee, purpose or detail and amount. Comment on status if irregular or questionable.

Questionnaire:

- A. Are any items carried in the Accounts Payable Account which more properly belong in another Liability Account classification?
Comment

OTHER LIABILITIES

- B. Are any items carried in the Accounts Payable Account which represent unpaid obligations of the bank for purchases of supplies, equipment, premises, etc.? Comment
- C. Is the Tellers Difference Account active?
Does review of the Tellers Difference Account disclose a pattern?
- D. Are details of the Tellers Difference Account submitted to the Board of Directors for approval?
How often?
- E. Are all items in the Hold Over Credit Account proper hold over credit items? Comment
- F. Is the action of the Board of Directors in declaring dividends properly approved and recorded in the minute book?
- G. Are all Rediscounts approved by officers or the Board of Directors in line with the provisions as set forth in the By-Laws?
- H. Are all drafts "Accepted" in behalf of the bank executed in accordance with the loaning authority established by the Board of Directors?
List exceptions
- I. Are all Advances Secured by Pledges of Securities approved by action of the Board of Directors?
Comment
- J. Are there any items carried in the Sundry Liabilities Account which should more properly be carried under another liability classification?
Comment

Audit of Trust Department

Trust Companies and Trust Departments of banks are organized under the laws of the respective states to act in a fiduciary capacity and perform certain functions, as a corporate entity, in the administration of the affairs of individuals and corporations.

The establishing of a trust relationship is based on confidence and while individuals can and do capably act in a fiduciary capacity, the principal advantage in having a bank perform the functions of a trustee or executor, is to provide continuity of action and compliance with the law, which is assured by virtue of the periodical examinations made of the operations of a Trust Department by the respective supervising authorities.

The functions of a Trust Department are principally of two types: Personal and Corporate.

Services of a Personal Trust Department are in connection with acting as executor or administrator of an estate; as trustee under a will, agreement or deed; or as a guardian or custodian under appointment of the court; or custodian or agent under agreement.

The functions of a Corporate Trust Department are in connection with acting as trustee under a corporate indenture for companies issuing bonds, notes, debentures or other forms of obligations; as agent for corporations; issuing, transferring and recording stock certificates; as registrar; maintaining the corporate records in connection with the registration of securities; and in acting as paying agent to disburse funds in connection with dividends on stock and interest on notes, bonds, or debentures.

Trust accounts are created:

1. During the lifetime of a person, as a vehicle to administer and manage his estate during his life.
2. During the lifetime of a person, by a will to become effective at the person's death.

3. By appointment of the court, as conservator of the assets of a person unable to act for himself because of age or disability.
4. By a corporation, as a vehicle whereby the bank will perform certain functions in behalf of the corporation, such as in connection with the payment of interest on bonds or dividends on stocks, etc.
5. By corporations and individuals, as a vehicle whereby the bank will hold in trust, securities or property or both, to be delivered to other parties upon performance of certain conditions.

Every trust, when created, is covered by a list of provisions and conditions to be used in carrying out the functions and purposes of the trust.

For the protection of the creator and beneficiaries of the trust, certain laws have been passed in the respective states covering the management of trusts from a legal standpoint.

Because a bank has certain liabilities and is responsible for administering a trust, it is of paramount importance that every trust account accepted by the bank for administration be scrutinized carefully so that the provisions for administering the trust are understood, the extent of the bank's liability determined, and the administration undertaken in accordance with the wishes and desires of the person creating the trust, where such provisions are not in conflict with the laws.

Although trusts are only represented in a bank's Statement of Condition by uninvested or undistributed trust funds maintained in a special deposit account, the Trust Department, for practical purposes, can be considered a separate corporation. Its financial transactions can be reflected in asset and liability accounts in a separate balance sheet form and their operations lend themselves, in a very practical manner, to auditing procedures.

All trusts, when initially accepted by a bank or trust company, consist either of cash, securities, real estate or a combination. It is up to the bank to administer and manage such cash, securities, or real estate or property, as set forth in the trust instrument. It is the responsibility of the direc-

tors, or through their designated representative, the auditor, to periodically examine the affairs of the trust department to be sure that assets are properly safeguarded; income distributed or invested; or distribution of principal made in accordance with the terms of the trust instrument.

One of the principal purposes of auditing a trust department is to be certain that there is no diverting of the principal to other than beneficiaries.

In setting up a trust account, a separate asset card should be made up for each issue of stock or bonds, individual piece of real estate or other property. An asset card should also be prepared which would currently show the amounts of uninvested principal and undistributed income. The total of these various asset accounts should be offset by liability cards disclosing, either the interest of the respective beneficiaries in the trust or, the amount of the principal deposited.

Inasmuch as a trust department is operated as a separate entity, it is advisable to establish a Chart of Accounts similar to the chart set up in Exhibits 21-22-23-24, but modified to fit the demands of the individual bank. A modification of the Chart of Accounts, applied to the Statement of Condition is included in Exhibit 59.

Where the Trust Chart of Accounts uses the same numbers as are used in the Commercial Chart of Accounts it is suggested that numbers be prefaced with the letter "T". Because of the limited number of accounts, subsidiary accounts under the principal headings can be identified by the affixing of secondary numbers. For example, while T-11 refers to U. S. Government Securities, T-11-1 would be used to designate Treasury Certificates; T-11-2 to designate Treasury Bills, T-11-3 U. S. Bonds, etc.

T-1 CASH ON HAND

The control account *Cash on Hand* represents the amount of currency and coin on hand. Because of the scope of activity of the trust department, which is usually operated as a department of a commercial bank, there is little need for maintaining a large amount of cash. Usually, therefore, Cash on Hand is of nominal amount and only sufficient

to reimburse petty cash expenditures, purchase of revenue and postage stamps and items of similar nature.

Where trust functions are operated as a major department of a trust company, of course, it is necessary to maintain sufficient cash on hand to provide for certain commercial services which the bank has to offer.

T-3 ON DEPOSIT—COMMERCIAL DEPARTMENT

The control account *On Deposit—Commercial Department* represents the aggregate amount of uninvested principal or undistributed income awaiting investment or distribution respectively, which the trustees or executors believe prudent to maintain in cash or deposit subject to withdrawals on demand.

T-7 ON DEPOSIT — SAVINGS DEPARTMENT

The control account *On Deposit—Savings Department* represents the aggregate amount of funds belonging to various trust accounts available for distribution or reinvestment, which the trustees or executors, unable to otherwise invest the funds because of a limited period of time or other conditions, yet prudently wishing to keep profitably employed, place in a savings account on an interest bearing basis.

T-11 U. S. GOVERNMENT SECURITIES

The control account *U. S. Government Securities* represents the total amount, at cost, of trust funds invested in the various types of U. S. Government securities.

T-15 OTHER BONDS AND SECURITIES

The control account *Other Bonds and Securities* represents the face value of trust funds invested in municipal, utility, railroad, industrial bonds.

T-25 STOCKS

The control account *Stocks* represents the value of trust funds invested in the various types of common and preferred stocks.

For control purposes, stocks having a stated par value are carried on the books at their stated par value. Stocks having a no par value are generally carried on the books at \$1.00 per share each.

T-31 REAL ESTATE

The control account *Real Estate* represents the aggregate amount of the various types of trust funds invested in real estate properties.

T-35 OTHER ASSETS

The control account *Other Assets* represents the total amount of trust funds invested in miscellaneous assets, such as notes, warrants, etc.

T-41 ACCOUNTS RECEIVABLE

The control account *Accounts Receivable* represents fees and commissions from trust accounts accrued but not yet payable.

T-45 SUNDRY RESOURCES

The control account *Sundry Resources* represents the total amounts of miscellaneous receivable and other assets not otherwise classified.

T-2 EXECUTOR OR ADMINISTRATOR

The control account *Executor or Administrator* represents the total corpus of the trust estates which the bank is handling as executor or administrator.

T-6 TRUSTEE UNDER WILL

The control account *Trustee Under Will* represents the total corpus of trust accounts which the bank is administering under terms of a will.

T-10 TRUSTEE UNDER AGREEMENT

The control account *Trustee Under Agreement* represents the total amounts of the corpus of trusts under which the bank is acting as trustee under agreement.

T-14 GUARDIANSHIP

The control account *Guardianship* represents the total corpus of trust accounts which the bank is administering as guardian.

T-18 AGENCIES

The control account *Agencies* represents the total corpus of trust accounts under which the bank is acting as agent.

T-22 ESCROWS

The control account *Escrows* represents the amount of assets deposited with the bank under terms of the escrow agreement.

T-26 TRUSTEE UNDER CORPORATE INDENTURE

The control account *Trustee Under Corporate Indenture* represents, at nominal amount, usually \$1.00 each, every relationship in which the bank is acting as trustee under a deed of trust covering bonds or securities issued by a corporation.

T-30 PAYING AGENT UNDER CORPORATE INDENTURE

The control account *Paying Agent Under Corporate Indenture* represents the total amount of undisbursed funds deposited by corporations to provide for the payment of interest on bonds issued by the corporation.

T-34 TRANSFER AGENT UNDER CORPORATE INDENTURE

The control account *Transfer Agent Under Corporate Indenture* represents at a nominal amount, usually \$1.00 each, the various corporate accounts for which the bank acts as a transfer agent on stocks and bonds for the company.

T-38 DIVIDEND DISBURSING AGENT UNDER CORPORATE INDENTURE

The control account *Dividend Disbursing Agent Under Corporate Indenture* represents the total undisbursed funds deposited by corporations under a corporate indenture with the bank to provide for the payment and distribution of dividends on the various types of stocks issued by the company.

T-42 REGISTRAR UNDER CORPORATE INDENTURE

The control account *Registrar Under Corporate Indenture* represents, at nominal amount, usually \$1.00 for each trust account wherein the bank acts as registrar for stocks and bonds issued by a corporation.

T-46 SUNDRY LIABILITIES

The control account *Sundry Liabilities* represents the balance of miscellaneous accounts payable items, such as

accrued interest, expenses, and taxes payable, which have not been charged to the Undivided Profits Account.

Procedure:

1. Seal compartments containing securities and cash.
2. Permit the trust teller to balance. Verify the balancing and initial each trust account entry or general ledger entry ticket. Spot trace items to their source.
3. Count and verify any cash in the department. Have teller receipt for cash when balancing is effected.
4. Take off a schedule of all trust accounts, per Exhibit 60, showing as of date of examination for each trust, the amounts of:
 - a. Uninvested principal
 - b. Undistributed income
 - c. Investment of principal in stocks, bonds, mortgages, other assets at book value.
 - d. Beneficiaries' interest.
5. Reconcile the totals of uninvested principal and undistributed income from all trust accounts with the control figures representing funds on deposit carried in the commercial department and savings department of the bank.
6. Reconcile totals of securities and other assets held in individual trusts with control figures.
7. Check out all securities and other assets held in the trust department with the assets records of the individual trusts.
8. Check all bonds, notes, etc. held by the trust department as to maturing coupons, etc.
9. Review the trust ledgers. Test confirm any important changes in assets purchased or sold in individual trusts since the last examination.
10. Directly confirm any securities out for transfer to the name of the bank's nominee or out on receipt for other reasons. List exceptions.

11. Review all mortgages held in trust accounts for current payment of principal and interest, payment of taxes, insurance coverage, etc. List exceptions.
12. Review mortgages purchased since last examination as to proper authorization for purchase, proper appraisal, etc. List exceptions.
13. Confirm that securities deposited by the bank with the trust department or with the supervising authorities to secure trust deposits have a market value sufficient to cover the funds deposited.
14. Confirm price of securities purchased or sold in the individual trusts with the brokers confirmation ticket. Verify accrued interest computations.
15. Check purchases and sales of securities to or from individual trust accounts with the minutes of the Trust Committee for proper approval and authorization. List exceptions.
16. Spot check and trace income earned, such as interest earned on bonds, mortgages, dividends declared, etc. to the proper trust account. Check back all items and income from journal sheets.
17. Review trust accounts for proper computation of fees. Trace fees to bank Income Accounts.
18. Check and confirm disbursements of income distributed to beneficiaries of individual trusts.
19. Review all trust accounts accepted since last examination for proper authorization of acceptance by the Trust Committee and approval by bank's counsel. List exceptions.
20. Obtain letter from the bank's counsel regarding any suits or litigations pending against the bank or any trust account.
21. Check all stock issued held in trust accounts as to declaration of dividends and verify receipt of dividends declared to respective trust accounts.

Questionnaire:

- A. Were any securities, mortgages, notes or property purchased for any trust account on the advice or

BANK AUDITING

- solicitation of any officer or director of the bank?
..... List
- B. Did or does any officer or director of the bank have any interest in any security, mortgage, property, etc. acquired during the year by a trust account?
List
- C. Were any securities, mortgages or property sold from a trust since last examination, sold to any officer or director or any company association, partnership, etc., in which an officer or director had or has an interest? List
- D. Do any directors, officers or employees of the bank represent beneficiaries of a trust in a personal capacity? List
- E. Are any directors, officers or employees of the bank or their wives beneficiaries of a trust
List
- F. Was all Interest Earned on bonds, notes, mortgages, etc., promptly collected and credited to the proper trust account? List exceptions
- G. Were all dividends declared, promptly credited to the proper trust account? List exceptions
- H. Are all securities held in possession of the trust department registered in the name of the bank's nominee? List exceptions
- I. Was all income distributed from trust accounts done so in accordance with the terms of the trust indenture? Were all principal payments made from a trust made in conformance with the trust indenture and properly approved by the Trust Committee?
- J. Is proper dual custody maintained over trust securities? Comment

Audit of Foreign Department

Scientific and transportation developments within recent years have lessened the distances between commercial cities of the world. This has resulted in the growth of international trade and has made it necessary for commercial banks in all parts of the country to render, or at least have available, foreign exchange services for their clients.

The extent to which Foreign Department services are available varies between banks, depending to a great extent on their location.

Inland banks have customers who are engaged primarily in importing and exporting goods. These imports or exports are handled primarily through the purchase of letters of credit, which are handled through the bank's correspondent bank located in a seaboard or major city, and by the purchase of drafts drawn on their customers.

Seaboard banks have extensive operations not only through the issuance of letters of credit and travellers checks, but through the purchase and sale of foreign currency and coin; and the discounting of foreign drafts, bills of exchange and acceptances in connection with the importing and exporting of goods.

In the majority of banks, their foreign transactions are conducted in connection with the issuance of travellers checks, the issuance of letters of credit, the exchange of United States currency or coin for currency and coin of a foreign country, or the exchange of currency and coin of a foreign country for United States currency and coin, and the discounting of drafts drawn on domestic companies incidental to the purchase of goods.

Generally, balances maintained with foreign banks are verified at the time the Due From Banks Accounts are confirmed. Amounts due to foreign banks are usually verified at the same time deposit liability accounts are confirmed.

Such confirmations always include and cover checks in transit and collections outstanding.

Banks which have extensive dealings in the moneys (exchange) of foreign countries often buy exchange for future commitments or sell exchange for future delivery. This practice is followed where banks believe that the price at which exchange is currently selling will increase at a future date; therefore, if they buy at the lower price and the price is higher when they sell exchange to their customers at market, they have realized a profit.

On the other hand, if they believe the price of foreign exchange is too high, they sell the exchange in the open market hoping that when time comes to make delivery, they can cover their commitment by buying exchange in the open market at a price less than that at which it was originally sold.

If a bank follows such a practice, it is imperative that all written contracts covering the purchase or sale of exchange be reviewed to ascertain that the orders have been properly approved. In addition, a report should be prepared showing the difference between the purchase or sale price and current dollar equivalent, so that the profit or loss can be determined and liability established.

The routine followed in auditing letters of credit, Chapter XIV, is sufficient to establish the fact that drafts issued under letters of credit and credits therein established, are properly handled.

Foreign cash on hand is verified at the time of the audit by following the established procedure in verifying cash, except that foreign coin is converted to its dollar equivalent as of date of purchase or sale and balance confirmed with general ledger control account, per Exhibit 25.

In setting up an audit routine for the Foreign Department it is necessary to determine that transactions involving foreign currency and coin are currently handled; proper commissions from the sale of currency and coin have been received; that in buying or selling currency or coin, computations are made in accordance with the quoted market price at the time of purchase or sale; and that the record of

transactions as shown in the ledger, correctly reflects the actual terms and conditions of the respective transactions.

Procedure:

1. Count and balance all foreign currency and coin, if not already done, in the tellers' cages.
2. Evaluate and convert to current dollar equivalents each foreign exchange account, per Exhibit 61. Determine profit or loss in respective accounts.
3. Take off a transcript of each individual foreign account, per Exhibit 62, since or since last examination. Spot trace all debits and credits to contra entries.
4. Test proof commission computations.

Questionnaire:

- A. Are all foreign exchange transactions properly recorded?
- B. Are all commissions covering the sale of letters of credit and travellers checks correctly figured?
.....
- C. Do respective exchange accounts reflect a large profit or loss as against purchase or book value price?
- D. Were recommendations made to management to absorb losses or realize profits as the case might be in the respective accounts? Comment
.....

Audit of Non General Ledger Control Accounts

In the operation of banks, many functions are performed and operations executed, the results of which are not reflected in the balance sheet or general ledger control accounts. As such, unless particular attention is given these operations, they are not included in the ordinary examination as conducted by the supervising authorities or accountants and auditors.

Many of these functions and operations, however, create, in the very manner in which they are executed, a contingent liability which should be determined through the application of an audit program and the contingent liability restricted through the adoption of sound internal audit control procedures.

The non general ledger operations which should be set up for review under an audit program are those in connection with:

1. Incoming Collections.
2. Outgoing Collections.
3. Orders in connection with the Purchase and Sale of Securities for customers.
4. The Safe Deposit Department.
5. The custody of securities, papers and other items left for Safe Keeping.
6. The custody and sale of Travellers Checks.
7. The handling of United States Savings Bonds.

In the management of a bank there are also many administrative decisions made and many policies established by the Board of Directors, which, if not properly executed and administered create a contingent liability.

Although the actual liability may be negligible, the adverse effect of the failure to carry out responsibility in executing policies and management decisions, can not be minimized. From a practical and contributing factor to competence standpoint, it is important that a review of policies and practices in connection with the operations of the various departments and divisions of the bank, and committees appointed by the directors be included in an audit program. This is particularly true if a bank is to follow an overall coverage audit program, or if accountants and auditors, who undertake audits in behalf of the directors, are to disclose from their routine, all contingent liabilities.

The principal departments or divisions which should be audited, for compliance with operating procedures, administrative decisions and bank policies, are the:

1. Accounting Department
2. Board of Directors
3. Cashiers or Operations Department
4. Committees of the Bank
5. Comptrollers Department
6. Personnel Department
7. Premises
8. Stationery and Supplies or Purchasing Department

The routines to follow in auditing the operations which reflect the execution of policies of the Board of Directors are herewith set forth under separate chapter headings.

Audit of Incoming Collections

TOTAL OPEN INCOMING COLLECTION

ITEMS	\$
Bonds	\$.....
Checks	\$.....
Coupons	\$.....
Drafts (B. L. attached)	\$.....
Drafts (Open Accounts)	\$.....
Drafts (Savings Pass Books)	\$.....
Mortgages	\$.....

An Incoming Collection item is one received from another bank or from individuals or companies who are not customers of the bank; drawn on a customer of the bank or on a person who is a resident of the community in which the bank is located, or on a company engaged in the community in which the bank is located.

Collection items are sometimes classified and recorded by points on which drawn. Items under this system, drawn on a bank, corporation or individual within the city in which the bank is located, are referred to as City Collections; while items drawn on banks, corporations and individuals located in a city other than the one in which the bank is located, are referred to as Country Collections. As the classifications Incoming and Outgoing Collections are better suited from an audit control standpoint, we refer to them thus in the audit routine.

While there is no limit as to the type of documents which can be handled by a bank for collection, the most common instruments or documents sent for collection are sight drafts with or without bills of lading or shipping documents attached; checks, bonds and coupons for collection, payment and remittance; drafts drawn covering the outstanding bal-

ance of open accounts owed to merchants; drafts drawn which are accompanied by a savings pass book covering the balance of a savings account to be transferred to another bank.

In order to exercise effective control over collection items, all collection items should be entered, as received, in a register, by date received, date of item, description, drawee, sender, number and amount. It is preferable, where ever practical, to use a multiple copy prenumbered registered form, so as to prepare copies for advices of remittance, auditors memo, memo for general ledger credit purpose, register copy and notice to the drawee, at the same time receipt or acknowledgment is prepared.

It is also recommended that a memo control record be maintained in the department which would show at all times, the current balance of unpaid or undisposed incoming collection items.

Remittances covering incoming collection items, except those received from the bank's city correspondent, are usually made by means of a draft on a correspondent bank or cashiers check.

The audit routine for incoming collection is set up primarily for the purpose of determining the existence, if any, of the contingent liability brought about either through failure to remit the proceeds from collection items or negligence in taking proper precautionary measures and exercising good judgment in handling negotiable items for collection.

In following an internal audit program, it is essential that disposition of each item be properly noted on the register so that verification of disposition can be made by the auditor during the examination.

Procedure:

1. Prepare a schedule, per Exhibit 63, as of date of examination, of all outstanding incoming collection items such as notes, drafts, bonds, coupons, etc., by date received, number, drawer, payee, description and amount. List according to classification.

BANK AUDITING

2. Intercept and check all credits, returns, remittances or payments for days following the date of examination to ascertain if payment has been received, payment of items refused, or what disposition has been made of the items.
3. Verify remittances through checking official checks, drafts, credits to correspondent bank accounts or other means of remittances.
4. Test check fees received by listing deductions made from proceeds of collection as shown on collection register and trace to respective income accounts.
5. Maintain control over collections until all items open on day of examination are accounted for by recall, payment or return. Directly verify items remaining open with sender.
6. Review the collection register to be sure that all forms are in numerical sequence.
7. Compare, on a test check basis, actual items with description as noted on collection register. Comment on omissions or errors in description.
8. Review a select group of collection items processed prior to examination date. Test check for order, payment, remittance, etc.

Questionnaire:

- A. Are all incoming collections properly indexed in the collection register? List exceptions.
.....
- B. Are all forms in numerical sequence with spoiled forms accounted for?
- C. Is the disposition of all incoming collection items properly noted on the collection register?
List exceptions.
.....

Audit of Outgoing Collections

TOTAL OPEN OUTGOING COLLECTION

ITEMS	\$
Bonds	\$.....
Checks	\$.....
Coupons	\$.....
Drafts (B of L attached)	\$.....
Drafts (Open Accounts)	\$.....
Drafts (Savings Pass Books)	\$.....
Mortgages	\$.....

An Outgoing Collection item is one received from a bank, corporation or individual who is a customer of the bank and drawn on a bank, corporation or individual who may or may not be a customer of the bank. Such a bank, corporation or individual is either located in the same town in which the bank is located, or in another town, in which latter case, the sender bank usually forwards the item to a bank in the town in which the drawee is located, for handling.

Collection items are sometimes classified and recorded by point on which drawn. Items under this system, drawn on a bank, corporation or individual within the city in which the bank is located, are referred to as City Collections; while items drawn on banks, corporations and individuals located in a city other than the one in which the bank is located, are referred to as Country Collections. As the classifications Incoming and Outgoing Collections, however, are better suited from an audit control standpoint, we refer to them thus in the audit routine.

While there is no limit as to the type of documents which can be handled by a bank for collection, the most common instruments or documents sent for collection are sight drafts with or without bills of lading or shipping documents attached; checks, bonds, coupons for collection, payment and remittance; drafts drawn covering the outstanding balance

of open accounts owed merchants; drafts drawn accompanied by a savings pass book of another bank covering the balance of a savings account to be transferred to the sending bank.

In order to exercise effective control over collection items, all collection items should be entered as received in a register by date received, date of item, description, drawee, sender, number and amount. It is preferable, wherever practical, to use a multiple copy prenumbered register form so as to prepare copies for advice of credit or remittance, auditors memo, memo for general ledger credit purposes, duplicate deposit credit or requisition for draft or cashiers check, register copy and letter of transmittal or notice to drawee, at the same time the receipt or acknowledgment is prepared.

It is also recommended that a memo control record be maintained in the department, which would show at all times, the current balance of unpaid or undisposed outgoing collection items.

Remittances covering outgoing collection items, are usually made by means of a credit to the account of the customer or through issuance of a cashiers check or draft.

The audit routine for outgoing items is set up primarily for the purpose of determining the existence, if any, of a contingent liability brought about either through failure to remit the full proceeds to the proper account at the right time, or negligence in taking precautionary measures in safely handling negotiable items deposited or left with the bank for collection.

In following an internal audit program it is essential that disposition of each item be properly noted on the register, so that verification of disposition can be made by the auditor during the examination.

Procedure:

1. Prepare a schedule, per Exhibit 64, as of date of examination, of all items out for collection, such as notes, drafts, bonds, coupons, etc., by date received, number, drawer, payee, description and amount.

OUTGOING COLLECTIONS

2. Intercept all credits, returns, remittances or payments for days following date of examination to determine proper application of proceeds.
3. Verify payments of collection items by tracing proceeds to ultimate source (cashier's checks, credit to an account or other medium of remittance of proceeds).
4. Directly verify with agency to whom item was sent for collection, all items outstanding and unpaid for days after date of examination.
5. Test check fees deducted from remittance, by comparing net proceeds received with payments to person from whom item was received for collection.
6. Review collection register to be sure that all forms are in numerical sequence.
7. Review a select group of collection items, processed prior to examination date, and test check for order, payment, remittance, etc.

Questionnaire:

- A. Are all outgoing collections properly indexed on the collection register and are all forms prenumbered? List exceptions.
- B. Is the disposition of all outgoing collection items properly noted in the collection register? List exceptions
- C. Are receipts issued to customer for items received for collection? If so are they pre-numbered by machine? Are all numbers accounted for?
- D. Are receipts returned when item is paid or returned?

Audit of Transactions Covering the Purchase or Sale of Securities for Customers

As an established service, banks are called upon, from time to time, to buy and sell securities for the accounts of their customers.

While the bank, in such cases, merely acts as agent in handling the orders and assumes no liability as to the purchase or sale price, if the transaction is handled properly; they do incur a contingent liability through failure to see that the order is properly executed according to the wishes of the customer; failure to place the order with a reputable broker for execution; negligence in properly making settlement with the broker in the case of a purchase of securities or in handling the proceeds of sale from the broker in the case of a sale of securities.

In addition to the liability to the customer and broker, the stockholders of the bank are subject to a risk in handling such transactions where proper and prudent arrangements have not been made with the customer to provide for funds to pay for the securities purchased.

It is to protect the stockholders as well as the customers and brokers that an audit procedure covering the purchase and sale of securities for the accounts of customers is included in the audit program.

Procedure:

1. Prepare a schedule, per Exhibit 65, showing by number of order, date, name of customer, security, price, broker, all orders for the purchase of securities for customers unexecuted as of date of audit.

SECURITY TRANSACTIONS

2. Verify all orders for the purchase of securities by directly corresponding with the broker with whom the order was placed.
3. Check purchase orders to ascertain that proper arrangements have been made and approved covering payment for securities purchased.
4. Prepare a schedule, per Exhibit 66, showing by number of order, date, name of customer, security, price, broker, and place of custody of securities, all orders for the sale of securities for the account of customers, unexecuted as of date of audit.
5. Verify all orders covering the sale of securities for customers by directly confirming the order with the broker with whom the order was placed.
6. Verify custody of securities to be sold for a customer under a sale order by actual scrutiny, if the securities are in possession of the bank, or by a confirmation letter, if the securities are in possession of the broker.
7. Examine all securities held by the bank under sale orders to determine if securities are in good delivery order. List exceptions.
8. Trace fees received from executing purchase or sale orders for customers to the proper income account.
9. Test check and verify prices shown on all brokers confirmation tickets with the proceeds of sale or funds tendered in payment; and with the market quotations on the day the order was executed. List any discrepancies.

Questionnaire:

- A. Are all orders for the purchase and sale of securities properly signed or authorized by customers?
..... Test check to determine if signatures are bonafide.

BANK AUDITING

- B. Are receipts given by the bank to customers for securities delivered for sale? If so, who signs them? Are they returned when order has been executed?
- C. Do customers receipt for securities purchased for their accounts when delivered?
- D. Are there any securities held by the bank in this department not covered by a sale or purchase order? List and make recommendations for present disposition.

Audit of Safe Deposit Department and Storage Facilities

Nearly every bank maintains a separate vault or a section in the regular vault of the bank which contains safe deposit boxes of assorted sizes, which it rents to corporations, partnerships, and individuals, etc., for the safe and protective custody of their securities and valuable papers.

In renting safe deposit boxes, every bank is charged with the responsibility of exercising due care and reasonable diligence in conducting the relationship between lessor and lessee as provided for under the statutory laws of the respective states. This, in brief, means that the bank should exercise the same degree of protection, care and diligence over lessees' property as it would if the property were its own.

While banks sometimes follow the practice of accepting packages, etc., for storage as part of their safe deposit operation, the practice should only be permitted after review and approval by the bank's counsel and certainty that the practice is undertaken in conformance with the Public Warehouse Act or Warehousemans Act of the respective state in which the bank is licensed to do business. Under no circumstances should sealed parcels be accepted for storage unless the contents contained are described in detail, the liability of the bank known, and the acceptance, approved by the bank's counsel.

The purpose of auditing the Safe Deposit Department is to be sure that there are no undisclosed liabilities against the bank by virtue of faulty contracts or loose or unsound operating procedures; that only authorized persons have ac-

cess to safe deposit boxes; and that safe deposit rentals, as earned and paid, are credited to the proper income account.

Procedure:

1. Review the general operations of the Safe Deposit Department from the standpoint of adequate protection from fire, theft, adequacy of control, alarm system, etc.
2. Review all contracts entered into since or from last examination for proper recording of signatures, authority of deputy, etc. and other information.
3. Prepare a schedule, per Exhibit 67, of all accounts delinquent as to rental payments thirty days or more.
4. Test check signatures on the access records with the signatures on the contract. List any discrepancies.
5. Test check authority for access with provisions for access as set forth in the contract. List exceptions.
6. Review procedure used in renting safe deposit boxes.
7. Review procedure used in terminating rental of a safe deposit box.
8. Review the procedure used in handling delinquent accounts.
9. Review the procedure used to recover possession of a box where the lessee is delinquent in the rent.
10. Prepare a list of all items left for storage with the bank from storage records.
11. Examine all packages in storage and compare description with bank records. Make list of all packages, the contents of which are not properly described.
12. Reconcile rents received with the potential rental on boxes rented and vacancies.

Questionnaire:

- A. Is the rental and use of safe deposit boxes properly supervised?
- B. Are entries to safe deposit boxes allowed on signature only?
- C. Is the attendant present when access is made to a safe deposit box?
- D. Are locks changed after each termination of lease?
- E. Are all access or entrance tickets signed, dated and initialed by a bank representative before allowing access? List exceptions
- F. Has bank counsel reviewed and approved the operating procedure covering the rental, use and termination of leases on safe deposit boxes?
Comment
- G. Do any of the officers or employees of the bank act as a deputy or have the right of access to any safe deposit box, except their own or one rented in the name of a member of their family?
Comment
- H. Are all coupon booths examined by an attendant after being used but before being assigned to another renter, to be sure the previous person did not leave anything there of value?
- I. Do all sealed packages in storage, the contents of which are not described, bear the approval of the bank's counsel? Comment
- J. Are all safe deposit boxes, where the lessee is delinquent in the rent, flagged or otherwise marked so that access will be withheld until rent is paid?
Comment

Audit of Safe Keeping Accounts for Customers

Banks, as a matter of custom and practice, act as "custodian" of stocks, bonds, insurance policies, agreements, documents and papers and other miscellaneous items, for customers of the bank and others. Such items are held on a temporary basis in what is known as a Safe Keeping Account.

Items or documents of value, deposited for safe keeping purposes, should only be taken into a safe keeping account as a temporary accommodation to customers when it is not convenient for them, at the time, to place the items in their own safe deposit box or make other arrangements for handling the items.

Safe keeping accounts are generally used when customers have purchased securities and are not available to take delivery themselves, in which case the bank issues a receipt to the one depositing the securities, which is delivered to the owner, who, in turn, presents the receipt to the bank as a release when they take possession of the securities.

Occasionally, banks will place securities, checks, or items evidencing value, taken from a borrowing customer as "collateral" or "security" in safe keeping. A question always arises over the title to such property in the event the bank should find it necessary to take possession. This practice should be discouraged and such items, if used for collateral purposes, placed in regular collateral custody.

Banks should not accept sealed envelopes for safe keeping when the contents are unknown. Sealed envelopes, where the description of the contents is sketchy and which do not indicate the extent or limitation of the bank's liability, should only be accepted in safe keeping with the approval of the bank's counsel.

The purpose of establishing an audit procedure covering safe keeping is to determine whether or not the bank has any undisclosed liability in connection with handling such items; that items in safe keeping have only been accepted by the department on a temporary basis; that fees for carrying items in safe keeping are correctly figured, collected and credited to the proper income account; and that items are not held in safe keeping which more properly should be handled and serviced by the Trust Department in some fiduciary capacity.

Procedure:

1. Prepare a schedule, per Exhibit 68, of all open Safe Keeping Accounts from the safe keeping register by date, name and description of all items held in safe keeping.
2. Examine and compare stocks, bonds, securities, papers, etc., deposited in safe keeping with the description on the register. List exceptions.
3. Prepare a separate schedule of safe keeping packages or envelopes where the contents are unknown or description incomplete. Comment on status.
4. Confirm, (Exhibit 69) all items held in safe keeping as of the date of examination, with the depositors. Report any differences.
5. Check out receipts and disbursements since last examination or for a period of
Verify the signatures on the receipts with the signature cards. Report any differences.

Questionnaire:

- A. Are receipts issued to customers for items deposited in safe keeping? Are receipts pre-numbered?
- B. Is the safe keeping register pre-numbered?
- C. Are safe keeping items held under dual control? If not, give reason and comment and comment on procedure.

BANK AUDITING

- D. Does the bank collect interest on bonds, accept dividend checks or payments on notes or mortgages, or perform any other service in connection with handling items in safe keeping?
Comment
- E. Are any items held in safe keeping free of charge?
.....
- F. Could better disposition be made of some of these items than to hold them in safe keeping?
Comment
- G. Are sealed packages with the contents unknown held in safe keeping? List such packages by name of depositor and description, together with the name of the officer who accepted it.
.....
- H. Are the records and controls maintained in connection with safe keeping items adequate?
Comment
- I. Is the bank protected by insurance against loss or misplacement of safe keeping items?
Comment

CHAPTER XL

Audit of Travellers Checks

TRAVELLERS CHECKS ON HAND \$.....

Travellers Checks Unissued per Schedule 70

..... Company

On Hand \$.....

Unremitted Sales \$.....

Total \$.....

..... Company

On Hand \$.....

Unremitted Sales \$.....

Total \$.....

..... Company

On Hand \$.....

Unremitted Sales \$.....

Total \$.....

(Sales made after date of audit but unremitted for by the time of verification should be considered as "on hand" for verification purposes.)

Travellers Checks, a convenient form of currency for use of those travelling, can be purchased at all principal banks throughout the world. While they are payable at any bank and the offices of most recognized express agencies, they are not drawn on any bank but guaranteed as to payment and order by some internationally known institution, such as The American Express Company, Bank of America and other leading banks.

The convenience of using travellers checks is in the fact that identification of the presentor is made by comparing the signature on the check, affixed at the time the check is pre-

sented for cashing, with the countersignature of the person affixed to the check at the time the checks are purchased.

Unissued travellers checks should be maintained under protective control at all times and subjected to periodical auditing to be certain that all checks are accounted for and that the bank is not incurring an undisclosed liability because of some unauthenticated or unsold checks getting into the hands of the wrong persons.

Procedure:

1. Prepare a schedule, per Exhibit 70, of unissued travellers checks on hand.
2. Reconcile checks on hand and unremitted sales with the control account.
3. Send a list of unissued travellers checks to the bank or agency which guarantees payment for purposes of confirmation.

Questionnaire:

- A. Is the reserve supply of unissued travellers checks kept under proper control? Comment
.....
- B. Is the working supply of travellers checks put in the vault at night or otherwise protected?
Comment

Audit of United States Savings Bonds Account

DUE TO FEDERAL RESERVE BANK:

U. S. SAVINGS BONDS \$.....

Savings Bonds Unissued

(Schedule 71) \$.....

Savings Bonds Sold Unreported

Sales (maturity value)

(Schedule 72) \$.....

(Maturity value of U. S. Savings Bonds, unissued, and maturity value of U. S. Savings Bonds sold, unreported sales, should reconcile with the account Due to Federal Reserve Bank, U. S. Savings Bonds Account.)

United States Savings Bonds, formerly known as United States Defense Bonds, are a form of tax anticipation warrant sold by the United States government, through banks and other authorized agencies, to corporations and individuals to finance current operations and outstanding debts of the federal government.

They are issued by the Treasury Department through the Federal Reserve Banks and sold on a discount basis by the banks of the country and other authorized agencies. (United States Savings Bonds sold at par are sold by banks and authorized agencies, but issued by the Treasury Department upon receipt of the order and funds from the banks with whom the order was placed.)

Bonds for sale to individuals and corporations by the banks are placed with each bank or authorized agent on consignment.

As bonds are sold, the proceeds are credited to an account in the name of the Federal Government "United States Treasury, Savings Bond Account".

Periodically, the funds are transferred to the Treasury Department for current operating use of the federal government. Weekly, the banks furnish a report to the Federal Reserve Bank in the district in which they are located, of all bonds sold.

The purpose of including a section on United States Savings Bonds in the Audit Program is to be certain that all unissued bonds and bonds which have been sold, but proceeds unreported, are accounted for and that the bank is free from any contingent liability because of misplaced, lost or misappropriated bonds.

Procedure:

1. Prepare a schedule, per Exhibit 71, by denominations, numbers, units and maturity value of United States Savings Bonds unissued.
2. Prepare a schedule, per Exhibit 72, by denominations, numbers, units and maturity value of United States Savings Bonds sold, which sales have been unreported.
3. Reconcile United States Savings Bonds unissued and United States Savings Bonds sold but unreported with Due to Federal Reserve Bank, U. S. Savings Bonds Account.

Questionnaire:

- A. Are unissued United States Savings Bonds kept under lock or proper control?
Comment
- B. How often are proceeds of sales of United States Savings Bonds reported to the Federal Reserve Bank?
- C. How often is the account Due to the Federal Reserve Bank, U. S. Savings Bonds Account reconciled? Comment

Audit of Accounting Department

The Accounting Department, sometimes known as the General Bookkeeping Section, is that department or section of the Comptroller's, Cashier's or general operating department of the bank which has as its principal responsibility the posting of general ledger tickets to general and subsidiary ledgers and the maintenance of the accounting records of the bank in which are recorded all transactions effecting the bank and which reflect at all times its financial position.

The specific general ledger accounts which are charged or credited with the amounts representing the results of transactions are generally selected by the person preparing the ticket, who it is assumed, is familiar with the proper account to debit or credit. Unless, however, such debit or credit tickets are reviewed by someone in the accounting department and correctness of the account effected verified, there is a risk that the wrong account might be debited or credited, which unless there is some procedure for rechecking, could result in creating an undisclosed liability and, if an income account is effected, in the bank overpaying their taxes.

In order to check the accounting routine and determine that accounts are correctly classified and credits charged and credited to the proper accounts, it is essential, under an audit routine, to review the activities of the Accounting Department. As the accuracy of the records are generally verified through the audit program covering the respective control accounts, the scope of audit is concerned primarily with the accuracy of posting and sufficiency of procedures.

Procedure:

1. Review the general ledger and subsidiary account ledgers for neatness and detail of record. Check any erasures of entries and where found, confirm by checking against original offsetting entry or ticket.
2. Review and refoot several days entries. Balance debits against credits. Review debits and credits for proper approvals.
3. Rerun and balance several days Daily Statements of Condition.
4. Check tickets as to posting to the proper accounts. Compare detail and amounts on the debit and credit tickets with the general ledger and subsidiary ledger entries. Comment where transactions are not recorded in sufficient detail to identify the transaction.
5. Review the system of accruals. Comment on efficiency.

Questionnaire:

- A. Does the present Chart of Accounts and posting operation of the general ledger and subsidiary ledger accounts provide the factors necessary for adequate audit controls?
 Comment
- B. Are entries in the general ledger or subsidiary ledger too detailed? Could they be simplified? Comment
- C. Are entries in the general ledger or subsidiary ledger too condensed for information purposes?
 Comment

Audit of The Board of Directors

Directors, under the By-laws of the bank, the banking laws of the respective state under which the bank is chartered, and the regulations of the various federal and state regulatory authorities, have many responsibilities, some of which were outlined in Chapter II. These responsibilities are executed by the directors themselves as a whole, through committees appointed by them, or delegated by them to the officers of the bank.

It is the purpose, in undertaking an audit of the Board of Directors, to determine that the directors are operating the bank according to the various state and federal banking laws and discharging their obligations and responsibilities to the stockholders as provided under the By-laws.

Procedure:

1. Prepare a list of the directors, showing their share-holdings.
2. Prepare a list of the directors, showing their attendance at meetings.
3. Check a list of directors, officers, and employees against the liability ledger. Prepare a schedule, per Exhibit 73, showing by name, their obligations to the bank, secured, unsecured; as endorser or guarantor; and date of authorization by proper action of the Board of Directors.
4. Review the minutes of the directors meetings since Check decisions made to determine if action taken was in conformance with By-laws and federal and state banking laws.

5. Make notes of important matters and decisions. Make proper investigation to see if decisions were carried out or required action taken. List exceptions.
6. Review the reports of the federal and state banking authorities made since or the last examination. Check to see if criticisms have been eliminated or are in the process of being corrected. Comment. Prepare a report of criticisms which require further attention.
7. Prepare a list of the committees of the bank appointed by the Board of Directors, showing the names of the members.
8. Review the routine and functions of the customer's auditor. Analyze the practicability and scope of his activity. Report on any functions he is presently undertaking which more properly belongs to other officers or department of the bank.

Questionnaire:

- A. Do the By-laws of the bank adequately provide for the present general scope of operations?
..... Comment
- B. Do the directors record in the minute book authorization for the purchase and sale of investments for the bank's account?
Test check. Comment
- C. Do the minutes of the directors meetings record disapproval as well as approval of loans and investments?
- D. What action do the directors take in instituting or following up efforts to collect slow and doubtful loans or other assets? Describe
- E. Do the minutes of the directors meetings show the approval, either monthly or periodically of all expenses?

BOARD OF DIRECTORS

- F. Do the minutes of the directors meetings show the approval in some manner of salary increases?
- G. Do the minutes of the directors meetings show periodical approval of budgets for new business activities, advertising, donations, etc.?
- H. Are the provisions in the state banking laws complied with? Comment on any violations.
.....
- I. Are the provisions of the federal banking laws complied with? Comment on any violations.
.....
- J. Do the directors approve all reports made to the federal or state governments? Comment
.....
- K. Are all loans to officers and directors properly approved by the directors and made in conformance with federal and state banking laws?
Comment
- L. Do the directors review all reports on the condition of the bank made by the bank's own auditor and the federal or state banking authorities?
Comment
.....
- M. Is receipt and review of each report noted in the directors minutes?
- N. Are criticisms, recommendations and suggestions made by the bank's own auditor and by the federal or state banking authorities at the time of their periodical examination brought to the attention of the directors?
- O. Do the directors approve the opening of accounts and borrowing arrangement with other banks?
.....
- P. Does the present approved scope of audit routine need to be revised? List recommendations and suggestions for consideration and approval.

Audit of Cashiers or Operations Department

The Cashiers or Operating Department of a bank is generally delegated with the responsibility of devising or originating, installing and supervising, the operating methods, routines and procedures of a bank.

In order to be sure that all changes in operating methods and procedures are understood and proper routines established, operating departments, or the cashiers department usually issue directional memorandums, known as Operating Instructions, which detail the method or procedure to be followed in placing into operation the new routines.

The review of operating methods and procedures, from an internal audit control setup, is continuous under an audit program. Each time the functions of a department or division are reviewed or audited, it is important that the auditor, under an audit program, review operating instructions, if used, for compliance. It is also important to analyze new methods and procedures adopted since the last audit, and operating methods and procedures contemplated being adopted, to be sure that such procedures have not or will not create an undisclosed exposure, and if there is an exposure, that a check or balance can be established to prevent a crime being committed.

Procedure:

1. Review Operating Instructions and check with departments or divisions affected for compliance. Comment on any deviation or non-compliance.
2. Check to be sure that all Operating Instructions have been issued in written form.

3. Review, with the officer in charge of operations, contemplated changes in operating methods and procedures and the mechanization of functions, etc., for audit controls.
4. Check with the officer in charge of operations as to progress in placing into effect recommendations and suggestions made in previous audit reports. Comment on non-compliance and call attention in the report as to neglect in taking proper action as recommended.

Questionnaire:

- A. Were all changes in operating methods and procedures adopted since the last examination, reviewed for proper audit control purposes before being adopted? Comment
- B. Have all new operating changes been set up so as to provide adequate internal audit controls? Comment.....
- C. Are there certain operating methods and procedures which should be changed so as to provide proper and sufficient audit control? List and make recommendations.
- D. Are there any contemplated changes in operating methods or procedures which have not been reviewed by the auditor and approved as to internal control procedures? Comment

CHAPTER XLV

Audit of the Committees of the Bank

Committees of the bank, appointed by the Board of Directors, have certain responsibilities delegated to them. It is for the purpose of determining that the committees are discharging their responsibilities and performing their respective functions that an audit of the committee functions is undertaken as part of an audit program.

Procedure:

1. Prepare a report covering each committee, per Exhibit 74, showing membership, attendance at meetings and function.
2. Review the minutes of the respective committee meetings held since
Check action taken to determine compliance with functions as set up by the Board of Directors.
Comment
3. Make a note of important decisions and investigate as to compliance or execution.
Comment

Questionnaire:

- A. Is action taken by the respective committee properly recorded in the minutes? Comment
- B. Do the minutes of each committee meeting show the disapproval as well as the approval of action taken? Comment

COMMITTEES OF THE BANK

- C. Are the decisions of committees periodically reported to the Board of Directors?
In what manner?
- D. Does each committee function in accordance with the purpose for which it was set up by the Directors? Comment
.....

Audit of Comptrollers Department

The Comptrollers Department of a bank is usually charged with, or assigned, certain duties by the Board of Directors. These responsibilities, however, vary with each bank, depending on size, organization plan and division of responsibility.

Fundamentally, the comptroller of a bank should be the control officer with prescribed and assigned duties in connection with:

1. The approval of disbursements covering expenses of the bank;
2. The preparation of all federal and state tax and operating reports;
3. The preparation of operating budgets;
4. The maintaining of a system of cost analysis;
5. The preparation and maintenance of statistical information.
6. The maintaining of insurance protection and control over certain assets of the bank as required;
7. Keeping management of the bank informed on changes in laws and regulations governing the operation of the bank promulgated by the federal, state or supervisory authorities.

The audit of the Comptrollers Department is undertaken principally for the purpose of verifying the authority for approving expenditures, the adequacy of insurance coverage, the extent of proper controls over claims, and the supervision over certain assets of the bank under the control of the comptroller.

Procedure:

1. Prepare a schedule, per Exhibit 75, showing by date, number, name of purchaser, name of payee or endorser, reason, surety or indemnity (bond) and authorization; all stop payment orders on each class of official checks and drafts outstanding as of date of examination.
2. Review all stop payment orders on official checks and drafts released since last examination for proper disposition. Review releases for proper authorization.
3. Review all stop payment orders on drafts for proper notification the correspondent bank on whom the draft was issued.
4. Prepare a schedule, per Exhibit 76, by date, detail, company and amount, covering all claims filed or pending with the insurance company in connection with application for reimbursement of losses under the bank's surety bond. Report and comment on present status and progress.
5. Review all requisitions for reimbursement of expense for proper authorization and approval. Check for irregularities and scrutinize for questionable amounts. Comment.
6. Test check expenditures for furniture and fixtures, machinery and equipment, etc.; stationery and supplies, etc.; advertising, publicity, donations, etc.; with budget provisions. Comment on any exceptions or irregularities.
7. Review the charged off file for changes since the last examination. Comment on results of action recommended by directors at last review.
8. Review approved operating budgets of offices. Compare with actual expenditures. Comment on differences as disclosed.
9. Review insurance schedules. Check for proper coverage.

10. Scrutinize all old outstanding official drafts and checks paid and old inactive accounts disbursed or reactivated since the last examination for proper endorsement, approval, etc. Trace to source.

Questionnaire:

- A. Where duplicate drafts are issued under a stop payment order, are they issued on the same bank?
..... Why?
- B. Does review of surety or indemnity bonds securing stop payment orders on official checks or drafts provide ample protection to the bank?
Comment
- C. Are all claims pending with the insurance company being properly followed up? List exceptions
.....
- D. Are all changes in budgets referred to the senior designated officer or Board of Directors for approval? Comment
- E. Were all budgets of respective offices and budgets covering general operating expenditures properly reviewed and approved by the Board of Directors?
..... Comment
- F. Are all expenditures properly authorized and approved? List exceptions
- G. What action is currently being taken on Charged Off Items? Comment and make recommendations.

CHAPTER XLVII

Audit of Personnel Department

The Personnel Department is usually a division of either the Cashiers or Operating Department. It is the responsibility of the Personnel Department to interview, hire, train, supervise and, where necessary, to dismiss bank personnel in accordance with the general policies as established by the Board of Directors.

If policies as to employee relations are not carried out, performance not recognized, or increases in salary based on merit are not granted, a turnover in personnel results, which contributes to inefficiency, an excess number of personnel and in increased costs of operation.

The purpose of periodically auditing the Personnel Department is to be certain that policies are being carried out and that practices in regard to vacations and overtime are not contributing to a weakening of the internal audit control system.

Procedure:

1. Review all personnel records and individual record of each employee for the purpose of determining that each employee's performance was reviewed during the past year. Prepare a list of all employees whose performance was not reviewed. Comment on reason.
2. Verify personnel employed with payroll records.
3. Prepare a list by department, of all personnel who did not take a vacation within the past twelve months and give reasons.

BANK AUDITING

4. Review overtime payments and hours by months. Make a list by department, name and position of those who habitually draw overtime payments. Check and comment as to necessity for working overtime.
5. Prepare a list of all personnel by department and name, who left the employment of the bank since the last examination or since
Give reasons for termination of employment.
6. Prepare a list by department and name, of all personnel dismissed from the bank since the last examination or since
Give reason for dismissal.
7. Prepare a list, by name, department and position, of all personnel who applied for loans during the past year, listing reason and action taken.
8. Prepare a list of all loans made since last examination or since to bank personnel, showing purpose, original amount and present balance.
9. Prepare a list of all loans made to bank personnel which as of date of examination, are delinquent as to principal payment or interest. Give reason.
10. Prepare a list of all personnel who have keys to the bank premises.
11. Prepare, by vault, a list of all personnel who have the combination to the bank vaults. Analyze for duplications and exposure. Comment.

Questionnaire:

- A. Were the performance records of all personnel properly reviewed on anniversary or semi anniversary dates? Properly graded?
List exceptions.
- B. Were all increases in salary properly authorized by Board of Directors?
List exceptions.

PERSONNEL DEPARTMENT

- C. Were all derogatory comments or down gradings made in cases where the managers did not recommend an increase in salary properly investigated by the Personnel Department? List exceptions.
- D. Were all complaints on personnel or recommendations for dismissal or transfer to another department investigated by the Personnel Officer and acted upon? Was proper action taken? List exceptions.
- E. Do records indicate that all officers and employees took a vacation within the past twelve months? List exceptions and reasons.
.....
- F. Were all employees while on vacation, absent from the bank for a period of at least two weeks or did they come to the bank several times a week during their vacation?
Prepare a list of all employees who visited the bank at one or more intervals during their vacation.
- G. Does the record of overtime correctly show the names of those who remain at the bank after hours? Comment
.....
- H. Is it necessary to work overtime?
Reasons
Could work be rearranged so as to eliminate overtime payments? How?
.....
- I. Were all letters of reference or recommendations in behalf of personnel dismissed from the bank, written in good taste and free from inference or statements which could be considered as defaming character? Comment
.....

BANK AUDITING

- J. Were all loans to employees made since the last examination or since properly approved and authorized? Comment
- K. Describe method of procedure used in following up or handling delinquent payments on loans to bank personnel.
- L. Do more than two persons have the combination to the main or other vault? Is this necessary?
- M. Does bank personnel sign in when entering the bank premises in the morning and sign out when leaving the bank premises at night? Would this be advisable?

CHAPTER XLVIII

Audit of Premises

Premises owned and used by the bank in conducting their business represent a sizeable investment of bank funds. Because of this fact, it is just as important to adequately provide for upkeep and maintenance, by making proper financial provisions as it is to set up reserves for interest, taxes and other bank expenses.

The routine covering the audit of the Properties Account, as set up in Chapter X, was established principally for the purpose of auditing financial records and checking on internal controls. The Audit of Premises is for the purpose of reviewing the condition of the building, checking on the maintenance and calling the attention of management to necessary repairs, which if neglected, would result in replacement or costly rehabilitation expenses.

Procedure:

1. Look over buildings and premises. Observe condition of roof, walls, windows and casements, ceilings, floors, foundation and lighting. Comment and make recommendations for repairs, painting, cleaning, rehabilitation, etc.
2. Inquire as to condition of heating plant, air conditioning unit, etc.
Check on maintenance contracts. Verify, if possible, work performed under the contracts.
3. Recommend, where warranted, the establishing of reserves covering necessary repairs or rehabilitation of properties.

Questionnaire:

- A. Are buildings properly maintained?
Comment

BANK AUDITING

- B. Are premises kept neat and clean, paper properly disposed of, floors swept, windows washed, old light bulbs replaced, etc.? Comment
.....
- C. Are grounds or parking lots properly maintained? Comment
.....
- D. What is general appearance of premises?
Comment on need of painting, etc.
.....

CHAPTER XLIX

Audit of Stationery and Supplies

Banks spend sizeable amounts of money each year out of earnings for stationery, forms, and supplies, required in conducting their business. If such stationery and supplies are prudently ordered, economies in operation will result. If however, orders are placed without due regard for requirements, set up, combination printing runs, or a proper quality and quantity basis, needless waste will result.

It is usually the responsibility of the cashier, the operating department or the comptroller, to see that stationery forms and supplies are ordered in proper quantity and streamlined to conform with new operating methods and procedures.

It is the responsibility of the auditor, however, under a well devised audit program, to establish the fact that stationery and supplies, as ordered and charged to expense, actually were delivered in quantity and at the price as agreed upon and that proper control is maintained over official checks receipts and numbered forms whose misplacement, loss, theft or misuse could result in an undetermined contingent liability.

Procedure:

1. Visit the stockroom. Make a physical inventory check of stationery and supplies on hand, either on a complete or on a test check basis.
2. Compare inventory count with book inventory figures.

BANK AUDITING

3. Price and extend dollar value of items and compare with control figures.
4. Review requisitions for stationery and supplies to determine if departments are under ordering or over ordering. Comment.
5. Check purchase orders for proper authorization and approval. List exceptions.
6. Review supplies and numbered forms from a fire hazard standpoint. Comment.
7. Determine if official checks and receipts are under proper custody, control and protection. Comment.
8. Check or test all official checks and numbered forms for numerical sequence.

Questionnaire:

- A. Are inventory controls over stationery and supplies as presently set up, sufficient for the purpose?
Comment
- B. Are the records of the bank and stationery and supplies neatly kept and in order?
Comment
- C. Are supplies kept in good order and properly maintained?
- D. Are supplies ordered in excess of normal requirements?
- E. Are forms periodically reviewed and revised by the operating committee or operating department so as to streamline and simplify?
Comment
- F. Are obsolete forms, old stationery, etc., kept in the stockroom? What disposition should be made of them?

STATIONERY AND SUPPLIES

- G. Are orders and requisitions received from departments reviewed for proper quantity before filling so as to avoid under or over ordering?
Comment
- H. Are all purchase orders properly approved?
- I. Are all forms numbered or otherwise identified as to department using?
Comment
- J. Are supplies which have a high deterioration rate maintained in minimum quantities?
Comment
- K. Are all types of official checks maintained under proper and safe control and in numerical sequence?
Comment
.....

CHAPTER L

Planning the Audit Program

The effectiveness of an audit is measured to a great extent by the rapidity with which controls are established at the beginning of an audit and the thoroughness with which the actual verifying and checking of the records of financial transactions are undertaken. This requires extensive advance planning. If however, the audit is properly planned, the audit staff should be able to obtain control of, or possession, over all assets and control over the records of all liabilities within five minutes after entering the bank. The sooner the better.

Generally, the more familiar a person is with current operating conditions and procedures, the less planning is required. Where the audit, under the guidance of the bank's own auditor, is on a continuous basis, similar to that outlined in Chapter LIII, it is presumed that the auditor and members of his staff are thoroughly familiar with methods and procedures used in the current operations of the bank and with other information upon which certain aspects of the audit program are based.

The Directors Examining Committee or the accountants selected by the Directors Examining Committee to undertake the periodic audit in behalf of the directors, however, are not always familiar with the current operating methods and procedures, or the exposure points which must be placed under surveillance at the beginning of the audit, if the audit is to correctly and accurately reflect the current condition and value of the assets and liabilities.

Some of the principal exposure points which should be covered and financial records or operations which should be

placed under absolute control immediately at the start of the audit are:

- Bank surplus cash
- Clearing House remittance letters
- Collateral
- Commercial ledgers
- Dishonored items returned by other banks
- General bookkeeping ledgers
- Investments in the possession of the bank
- Investments in safe keeping with other banks
- Investment ledgers
- Items dishonored by subject bank and being returned
- Investments pledged to secure deposits
- Liability ledgers
- Notes and mortgages
- Records of amounts on deposit with other banks
- Savings ledgers
- Stockholders ledgers
- Subsidiary ledgers—income and expense
- Tellers who have cash in their possession
- Transit letters
- Trust records and ledgers.

In order to carry out a well formulated audit program, it is helpful and sometimes necessary for the person who is to supervise the audit to visit the bank prior to undertaking the audit, in order to become familiar with the layout of the bank, so as to be able to assign members of the audit staff to exposure points where controls should be established and maintained; determine the extent and scope of the verification phases of the program; the length of time required to undertake the audit, the number of men required, and be able to estimate the budget provisions which the directors should make to cover the expenses involved in undertaking the service.

Pre audit information is best obtained by having the person who is to supervise the undertaking of the audit, when he calls at the bank, conduct an audit survey, similar to the one set forth at the end of this chapter. After the sur-

vey has been made, the person who is to supervise the undertaking of the audit, should review his findings and compare the audit routine with the bank's daily Statement of Condition to determine which sections of the audit routine, as set forth in Chapter LI, should be applied to the accounts carried by the bank as disclosed by a review of the chart of accounts. As the accounts which should be audited by the program are determined, they are checked off the audit schedule, as set forth in the next chapter.

In making the survey preliminary to determining the scope of the audit for the bank, the auditor or person who is going to be actively in charge of the audit, should also sketch out the layout of the bank and after determining the control and exposure points, mark them on the layout sketch so that when members of the audit staff enter the bank, they can immediately proceed to the exposure points and either take physical control of assets and records of liabilities, or by suitable means, seal up the control points and/or records.

The audit survey should be made some months in advance of the actual assignment so that the surprise element can be maintained and plenty of time allowed for the printing of confirmation letters, envelopes, etc.

Prior to undertaking the actual audit, the scope of the audit program to be followed should also be reviewed with the members of the audit staff so that they can become familiar with the routine and understand how their particular assignment contributes to the overall program.

**An outline of an Audit
Survey will be found on
the following pages.**

PLANNING THE AUDIT PROGRAM

BANK AUDIT SURVEY

Date.....

Name of Bank.....

Address.....

Telephone Number.....

Hours

Examination Authorized by letter dated.....Resolution dated.....

BANK ADMINISTRATION

Obtain two copies of the bank's latest published Statement of Condition and one copy of the Daily Statement of Condition which shows the general ledger accounts used in the accounting procedures of the bank. Paste or otherwise attach the list of officers and directors; balance sheet showing name of accounts used and Statement of Condition in space provided.

Members of Auditing Committee

.....
.....
.....

Audit Report to be delivered to:

Additional copies required.....

Number of active checking accounts..... Inactive.....Total.....

Number of total checking accounts to be directly verified.....

Number of active savings accounts.....Inactive.....Total.....

Number of total savings account to be directly verified.....

Number of commercial loans..... installment loans..... Total.....

Number of total loans to be directly verified.....

Are loans to be evaluated or appraised?.....

BANK AUDITING

Are inactive accounts segregated?..... Under control of

Does the bank have safe keeping items?..... Where held?.....

Number of safe keeping items..... Number to be directly verified.....

Where is collateral kept?..... Under whose control?.....

Is collateral to be directly verified?.....

Where is bank reserve or surplus cash maintained?.....

Under whose control?.....

Where are bank investments maintained?.....

List names of banks holding investments in safe keeping and reason.

.....
.....
.....

Are investments to be evaluated or appraised?

To which banks are local items sent for collection?

.....
.....
.....

To which banks are out of town items sent for collection?

.....
.....
.....

Other banks with which the subject bank maintains an account

.....
.....
.....

List by name, window number and classification, all tellers who have cash in their possession:

.....
.....
.....

PLANNING THE AUDIT PROGRAM

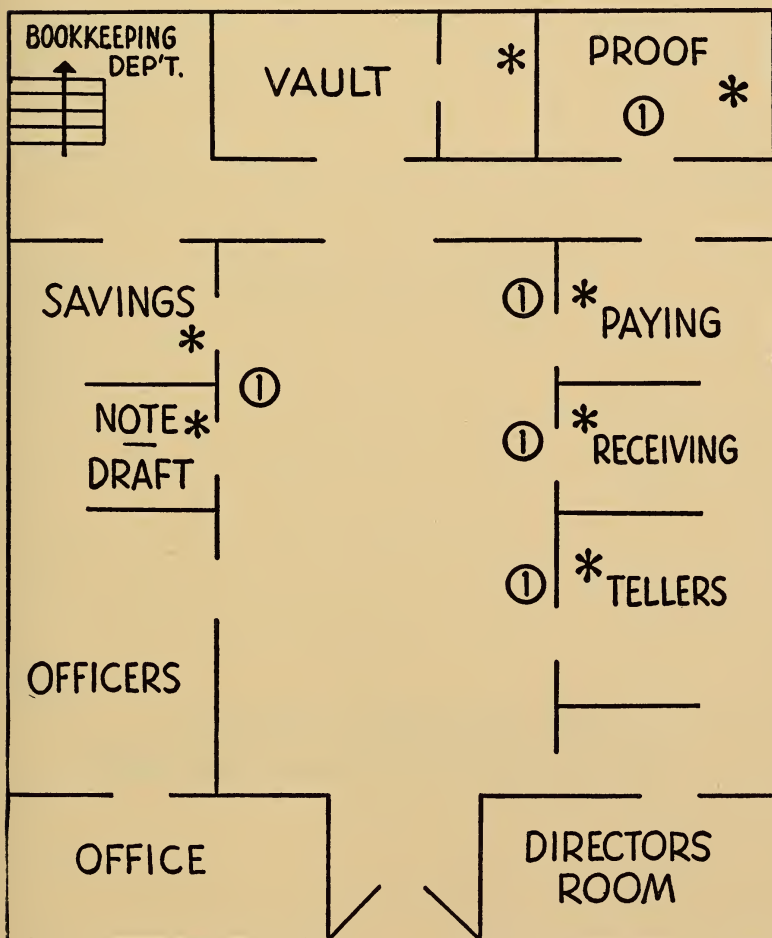
Number of checking account bookkeepers.....

Number of ledgers.....

Number of savings account bookkeepers.....

Number of ledgers.....

Briefly sketch in the space below a floor plan of the bank, showing the location of the vault, the cages and respective functions. Indicate exposure points by marking with an asterisk and examiners required to observe or take control by circling the number as shown below.



[illegible]

250

PLANNING THE AUDIT PROGRAM

No. of checking acct. confirmation letters requiredCost.....
 No. of savings acct. confirmation letters requiredCost.....
 No. of loan confirmation letters requiredCost.....
 No. of collateral confirmation letters requiredCost.....
 No. of safe keeping confirmation letters requiredCost.....
 No. of outgoing envelopes requiredCost.....
 No. of postage prepaid envelopes requiredCost.....

	Length of engagement by days										Total
	1	2	3	4	5	6	7	8	9	10	
Number of examiners required											
Number of assistants required											
Staff cost											
Hotel											
Breakfast											
Lunch											
Dinner											
Misc. Stationery — Supplies											
R.R. & Travel											
Total cost of audit											
Fee to be charged											

Executing the Audit

In Chapter L, the value of making an audit survey prior to undertaking the audit was briefly described. Such a survey, when properly made, not only indicates the steps required to be set up, and exposure points to be covered, but the scope of the audit routine itself, applicable to the circumstances and situations as found in the particular bank being audited.

Nowhere is the saying "A chain is no stronger than its weakest link" more applicable than to the audit program, where omitting the verification of one account or neglecting to establish one vital control, could render the entire program valueless. It is for these reasons, and to be sure that every section of the audit program, pertinent to the particular bank will be applied, that it is necessary to review the audit routine and check it against the Daily Statement of Condition—just to be sure that every control account and respective subsidiary accounts will be audited in the usual course of bank business, but particularly in the *unusual* course of the audit program.

In connection with executing an audit program, it is necessary for record purposes, that a proper record be maintained, showing the name of the auditor in charge of the audit, the assistants assigned to the particular audit and those of the audit staff who actually executed the particular section or phase of the program. It is also necessary that the person in charge of the audit follow a set outline in getting the audit under way and that assignments of work in connection with the audit are made in the proper order.

So that these important phases of the audit program be properly administered, an Audit Information Sheet, an outline of the General Audit Procedure, and a Bank Audit Schedule, to follow as a guide in executing the program (a

summary of the procedure to follow in auditing each section) are included at the end of this chapter.

As in the smaller banks the auditor in charge may find it more practical to assign work by chapters or control accounts instead of by sections or accounts, as would be more practical in the larger banks, the schedule provides for assignments of work by chapters as well as for assignments by individual sections or accounts.

In using the Bank Audit Schedule, particular attention should be given to checking off the sections of the routine which are applicable to the bank and in indexing, in the space provided, not only the name of the auditor who undertakes the work in connection with auditing the section and executing the "Procedure" and the "Questionnaire" set up for each section, but, where practical, the time the assignment was begun as well as the time the assignment was completed.

GENERAL AUDIT PROCEDURE

1. Arrive at the bank a few minutes before closing time.
2. The auditor in charge should introduce his assistants to the officer in charge of the bank.
3. The auditor in charge should immediately seal all vaults, safes, or containers holding cash, collections, securities, notes, mortgages, etc., which are to be audited during the course of the assignment.
4. The auditor in charge should assign an assistant to each cage (or series of cages, if it is possible to cover more than one cage) to observe and check out the teller in his balancing operation.
5. The assistant assigned should permit each teller to balance and put through any general ledger tickets necessary to balance the cage and complete the day's work.

The assistant, however, shall initial each general ledger ticket in the lower right hand corner and make a list of such general ledger tickets. Later, the auditor in charge should review all tickets to see if each ticket is initialed and; as indexed on the recap sheet, check with the tickets put through. Any change or alteration should be carefully scrutinized and verified.

6. After the teller has balanced, the assistant is to verify all cash under the control of the teller in his cage or in his vault compartment. When this has been done, if the auditor's count and the teller's count are the same, and the cage is in balance, the auditor will turn back the cash to the teller and have him receipt for same on the auditor's recap sheet. If there is a difference, the proper over or short ticket is to be prepared by the teller, properly initialed by the auditor or assistant and put through to the Tellers Difference Account.
7. The auditor in charge should instruct the general bookkeeper to post all entries and prepare as soon as possible (the following morning if a delayed posting system is used) a Statement of Condition reflecting the condition of the bank as of the close of business as of the date of examination.
8. The auditor in charge should instruct the bookkeepers (commercial savings or loans) to post all entries as soon as received from the tellers or central proof or general bookkeeper.
9. The auditor in charge should detach the audit routine sheets and assign his assistants to the various phases of the audit routine, marking the name of the assistant assigned to the specific function and the time started on the schedule sheet. As soon as one section is completed, it should be turned over to the auditor in charge for review and reinsertion in the audit routine.

EXECUTING THE AUDIT

10. The auditor in charge should instruct the proof department to hold all cash letters containing checks drawn on local or out of town banks until they have been scrutinized by a member of the audit staff and a list of items over a certain amount taken off.
11. The auditor in charge should send a letter to all correspondent banks with whom the bank maintains an account, requesting a statement of the bank's account as of the close of business on the date of examination and asking them to acknowledge receipt of the items mailed to the bank that day for collection and credit.
12. The auditor in charge should assign assistants to run the commercial ledgers, savings ledgers, liability ledgers and other journals or ledgers and to verify the totals with the control figures in the general ledger.

A sample Audit Information Sheet and Bank Audit Schedule appear on the following pages.

BANK AUDITING

AUDIT INFORMATION SHEET

NAME OF BANK.....

OFFICE.....

MANAGER IN CHARGE.....

ASSISTANT

AUDIT BEGAN (Date)TIME

AUDIT ENDED (Date)TIME

AUDITOR IN CHARGE.....

ASSISTANTS

.....

.....

.....

.....

No. Checking A/C BookkeepersNo. LedgersNo. Accounts....

No. Savings A/C BookkeepersNo. LedgersNo. Accounts....

No. Loan TellersNo. LedgersNo. Accounts....

No. Paying and Receiving Tellers.....

No. Exchange Tellers..... No. Draft Tellers..... No. Other Tellers.....

NOTE:

- A. Auditor or his assistant before beginning the audit should provide a sufficient number of tellers recapitulation sheets to cover all tellers. See Exhibits 25/26.
- B. Auditor or assistant should prepare tally sheets for verification purposes before beginning audit. See Exhibits 27 - 42 - 44.

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
.....	Seal all vaults and compartments	.....	.....	.....
.....	Instruct head bookkeeper to prepare Statement of Condition	.....	.....	.....
25	Audit of Cash and Due From Bank Accounts.	.....	.....	.....
1	Verify Bank Reserve Cash.	.....	.....	.....
1	Verify Tellers Cash.	.....	.....	.....
3;7;9;11; 13;19;21	Review and list Items in Transit and Clearings over \$.....	.....	.....	.....
3;7;9;11; 13;19;21	Intercept and review all Return Items. Trace to source.	.....	.....	.....
3;9;11;13 17;19;21	Send Confirmation Letters to Due From Banks.	.....	.....	.....
.....	Check deposit slips for prior dating.	.....	.....	.....
65	Audit of Loan and Discount Accounts.	.....	.....	.....
27/63	Balance notes in file and in process of collection with Liability Ledger.	.....	.....	.....
27/63	Check out collateral with Collateral Register.	.....	.....	.....
27/63	Test check Loans for proper authorization.	.....	.....	.....
57	Prepare list of Overdrafts.	.....	.....	.....
27/63	Prepare list of Past Due Regular Loans.	.....	.....	.....
27/63	Review new and renewal loans for .....days as to authority, supporting papers, etc.	.....	.....	.....
27/63	Prepare Tally Sheets and Confirmation Letters on Regular Loans.	.....	.....	.....
53;53-2	Run and balance Installment Loans with Liability Ledger	.....	.....	.....
53;53-1 53-2	Prepare list of Past Due Installment Loans.	.....	.....	.....
53;53-1 53-2	Prepare Tally Sheets and Confirmation Letters on Installment Loans.	.....	.....	.....

BANK AUDITING

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 95	Audit the Bond and Investment Account.	.....	.....	.....
..... 67/93	Prepare list of securities from Investment Ledger. Balance with general ledger control figures.	.....	.....	.....
..... 67/93	Verify by direct correspondence securities held in safe keep- ing at other banks or out on trust receipt.	.....	.....	.....
..... 125	Audit of Properties Account	.....	.....	.....
..... 97/121	Prepare a transcript of each property account and schedules 32 and 33.	.....	.....	.....
..... 1 5	Audit of Income Earned but Not Collected Account.	.....	.....	.....
..... 127	Verify debits to Accrued Interest Receivable Account.	.....	.....	.....
..... 127	Audit of Accrued Interest Receivable Account.	.....	.....	.....
..... 129	Verify debits to Interest Earned but not Collected Account.	.....	.....	.....
..... 129	Audit of Interest Earned but Not collected Account.	.....	.....	.....
..... 131	Verify debits to Other Income Earned or Accrued but not Collected Account.	.....	.....	.....
..... 131	Audit of Other Income Earned or Accrued but not Collected Account.	.....	.....	.....
..... 155	Audit of Current Expenses from Operations Account'	.....	.....	.....
..... 137	Verify Interest and Discount on Borrowed Money Account.	.....	.....	.....
..... 139	Verify Interest Paid on Deposits Account.	.....	.....	.....
..... 141	Verify Taxes Paid Account.	.....	.....	.....
..... 143	Verify Depreciation Account.	.....	.....	.....
..... 147	Verify Fees Paid to Directors and Committees Account.	.....	.....	.....
..... 149	Verify Salaries and Overtime Paid Account.	.....	.....	.....
..... 151	Verify Other Operating Expense Accounts.	.....	.....	.....

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 165	Audit of Charges or Losses Accounts.	.....	.....	.....
..... 157	Prepare transcript of Losses on Loans Account. Verify authority for entries.	.....	.....	.....
..... 159	Prepare transcript of Sundry Losses Account. Verify authority for entries.	.....	.....	.....
..... 161	Prepare transcript of Losses on Sale of Securities Account. Verify authority for entries.	.....	.....	.....
..... 163	Prepare transcript of Losses on Sale of Other Prop. Account. Verify authority for entries.	.....	.....	.....
..... 185	Audit of Other Resources Accounts.	.....	.....	.....
..... 167	Prepare transcript of Accounts Receivable Account. Review for order and authority.	.....	.....	.....
..... 169	Prepare transcript of Tellers Difference Account. Review for order and authority.	.....	.....	.....
..... 171	Prepare transcript of Hold Over Debits Account. Review for order and authority	.....	.....	.....
..... 173	Prepare transcript of Customers Liability under Letters of Credit A/C. Review for order and authority.	.....	.....	.....
..... 177	Prepare transcript of Prepaid Expense Account open items. Review for order and authority.	.....	.....	.....
..... 177	Prepare schedule of insurance carried by the bank.	.....	.....	.....
..... 177	Review F.D.I.C. Assessments for proper computation — amortization.	.....	.....	.....
..... 181	Prepare a schedule of all open Sundry Resources Accounts.	.....	.....	.....

BANK AUDITING

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 20	Audit of Public Fund Demand Deposits Secured by Collateral.	.....	.....	.....
..... 30	Audit of U.S. Govt. Demand Deposits Secured by Collateral.	.....	.....	.....
..... 40	Audit of Regular and Special Demand Deposit Accounts.	.....	.....	.....
..... 32	Run Regular Checking Deposit Accounts. Balance with general ledger control account.	.....	.....	.....
..... 34	Run Special Checking Deposit Accounts. Balance with general ledger control accounts.	.....	.....	.....
..... 36	Run Inactive Checking Accounts. Balance with general ledger control account.	.....	.....	.....
..... 38	Run Certificates of Deposit Accounts. Balance with general ledger control account.	.....	.....	.....
..... 50	Audit of Deposits Securing Liabilities Accounts.	.....	.....	.....
..... 60	Audit of Escrow and Fiduciary Deposit Accounts.	.....	.....	.....
..... 70	Audit of Due to Banks Accounts.	.....	.....	.....
..... 2/70	Prepare Tally Sheets and Confirmation Letters on Demand Deposit Accounts.	.....	.....	.....
..... 2/70	Test check signatures on checks for.....days.	.....	.....	.....
..... 2/70	Spot check deposits for.....days for date alteration.	.....	.....	.....
..... 90	Audit of Official Checks Accounts.	.....	.....	.....
..... 72	Run Outstanding Certified Checks. Balance with general ledger control account.	.....	.....	.....

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 74	Run Outstanding Expense Checks. Balance with general ledger control account.	.....	.....	.....
..... 76	Run Outstanding Administra- tive Checks. Balance with general ledger control account.	.....	.....	.....
..... 78	Run Outstanding Dividend Checks. Balance with general ledger control account.	.....	.....	.....
..... 82	Run Outstanding Christmas Club Checks. Balance with general ledger control account.	.....	.....	.....
..... 84	Run Outstanding Money Orders. Balance with general ledger control account.	.....	.....	.....
..... 86	Reconcile Due Local Banks for Ret. Items account. Balance with general ledger control account.	.....	.....	.....
..... 88	Reconcile Cash Letters of Credit. Balance with general ledger control account.	.....	.....	.....
..... 110	Audit of Public Fund Time Deposits Secured by Collateral.	.....	.....	.....
..... 120	Audit of U.S. Govt. Time Deposits Secured by Collateral.	.....	.....	.....
..... 140	Audit of Regular and Special Time Deposit Accounts.	.....	.....	.....
..... 122	Run Savings Deposits accounts. Balance with general ledger control account.	.....	.....	.....
..... 124	Run Christmas Club Dep. A/C. Balance with general ledger control account.	.....	.....	.....
..... 126	Run Savings Deposits — Personal Loans account. Balance with general ledger control account.	.....	.....	.....
..... 128	Run Time Deposits Open Accounts. Balance with general ledger control account.	.....	.....	.....
..... 132	Run Inactive Savings Deposits Accounts. Balance with general ledger control account.	.....	.....	.....

BANK AUDITING

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 134	Run Unclaimed Balances Savings Deposits. Balance with general ledger control account.	.....	.....	.....
..... 136	Run Certificates of Deposit Accounts. Balance with general ledger control account.	.....	.....	.....
..... 92/140	Prepare Tally Sheets and Confirmation Letters on Time Deposit Accounts.	.....	.....	.....
..... 92/140	Test check signatures on savings withdrawals for.....days.	.....	.....	.....
..... 92/140	Spot check deposits for.....days for date alteration.	.....	.....	.....
..... 150	Audit of Capital Accounts.	.....	.....	.....
..... 142	Check out Capital Stock Common Ledger. Balance with general ledger control account.	.....	.....	.....
..... 142-1	Check out Capital Stock Preferred Ledger "A". Balance with general ledger control account.	.....	.....	.....
..... 142-2	Check out Capital Stock Preferred Ledger "B". Balance with general ledger control account.	.....	.....	.....
..... 142/144	Prepare list of stockholders owning various kinds of stock, notes or debentures.	.....	.....	.....
..... 144	Check out Capital Notes and Debentures Ledger. Balance with general ledger control account.	.....	.....	.....
..... 146	Prepare transcript of Surplus Account.	.....	.....	.....
..... 148	Prepare a transcript of Undivided Profits Account.	.....	.....	.....
..... 170	Audit of Reserve Accounts.	.....	.....	.....
..... 152/170	Prepare transcripts of various Reserve Accounts. Balance with general ledger control account.	.....	.....	.....

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 180	Audit of Income Collected but Unearned Account.	.....	.....	.....
..... 172	Verify entries and charges to Unearned Discount Account.	.....	.....	.....
..... 172	Audit Unearned Discount Account.	.....	.....	.....
..... 176	Verify entries and charges to Unearned F.H.A. and other Service Fee Income Account.	.....	.....	.....
..... 176	Audit Unearned F.H.A. and other Service Fee Income Accounts.	.....	.....	.....
..... 190	Audit of Expenses Accrued but Unpaid Account.	.....	.....	.....
..... 182	Verify Accrued Interest Account.	.....	.....	.....
..... 184	Verify Expenses Payable Account.	.....	.....	.....
..... 186	Verify Accrued Taxes Payable Account.	.....	.....	.....
..... 220	Audit of Current Income from Operations Account.	.....	.....	.....
..... 192	Verify Interest Earned Loans and Discounts Account.	.....	.....	.....
..... 194	Verify Interest Earned Investments Account.	.....	.....	.....
..... 196	Verify Service Charges and Fees on Loans Account.	.....	.....	.....
..... 198	Verify Service Charges on Checking Accounts account.	.....	.....	.....
..... 202	Verify Other Charges and Fees Account.	.....	.....	.....
..... 204	Verify Commissions Account.	.....	.....	.....
..... 206	Verify Exchange Charges Account.	.....	.....	.....
..... 208	Verify Rents Received Account.	.....	.....	.....
..... 212	Verify Safe Deposit Box Rent Account.	.....	.....	.....
..... 214	Verify Trust Dept. Fees Account.	.....	.....	.....
..... 230	Audit of Recoveries and Profits Accounts.	.....	.....	.....
..... 222	Prepare transcript of Recoveries on Loans Account. Trace entries to source and reconcile.	.....	.....	.....

BANK AUDITING

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
..... 224	Prepare transcript of Sundry Recoveries Account. Trace entries to source and reconcile.	.....	.....	.....
..... 226	Prepare transcript of Profits From the Sale of Securities A/C. Trace entries to source and reconcile.	.....	.....	.....
..... 228	Prepare transcript of Profits From the Sale of Other Property A/C. Trace entries to source and reconcile.	.....	.....	.....
..... 260	Audit of Other Liabilities Accounts.	.....	.....	.....
..... 232	Prepare transcript of Accounts Payable Account. Review for order and authority.	.....	.....	.....
..... 234	Prepare transcript of Tellers Differences A/C. Review for order and authority.	.....	.....	.....
..... 236	Prepare transcript of Hold Over Credits Account. Review for order and authority.	.....	.....	.....
..... 238	Prepare transcript of Letters of Credit Outstanding Account. Review for order and authority.	.....	.....	.....
..... 242	Prepare transcript of Dividends Declared But Not Payable Account. Review for proper authority.	.....	.....	.....
..... 244	Prepare transcript of Rediscounts Account. Review for order and authority.	.....	.....	.....
..... 246	Prepare transcript of Acceptances Account. Review for order and authority.	.....	.....	.....
..... 248	Prepare transcript of Advances Secured by Pledge of Securities A/C. Review for order and authority.	.....	.....	.....
..... 252	Prepare transcript of Sundry Liabilities Account. Review for order and authority.	.....	.....	.....

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
.....	Statement of Condition-Trust Dept.	.....	.....	.....
.....	Prepare transcript of each trust account.	.....	.....	.....
.....	Check out and verify assets held in each trust account with inventory cards.	.....	.....	.....
.....	Review all trust accounts for proper fees, crediting of income, etc.	.....	.....	.....
.....	Audit of Foreign Department	.....	.....	.....
.....	Prepare schedule converting foreign exchange to dollar equivalents.	.....	.....	.....
.....	Prepare transcript of each foreign exchange account.	.....	.....	.....
.....	Audit of Incoming Collections.	.....	.....	.....
.....	Prepare schedule of open incoming collection items. Check and verify.	.....	.....	.....
.....	Audit of Outgoing Collections.	.....	.....	.....
.....	Prepare a schedule of open outgoing Collections. Check and verify.	.....	.....	.....
.....	Audit of transactions covering the Purchase or Sale of Securities for customers.	.....	.....	.....
.....	Prepare schedule of open orders for the purchase of securities for customers. Check out and verify.	.....	.....	.....
.....	Prepare schedule of open orders for the sale of securities for customers. Check out and verify.	.....	.....	.....
.....	Audit of Safe Deposit Department and storage facilities. Report on operat- ing methods.	.....	.....	.....
.....	Audit of Safe Keeping Accounts.	.....	.....	.....

BANK AUDITING

BANK AUDIT SCHEDULE

Account Number	Routine	Auditor Assigned	Time Start	Time Finish
.....	Prepare schedule of all open Safe Keeping accounts. Confirm.	.....	.....	.....
.....	Audit of Travellers Checks Account. Reconcile with issuing agency.	.....	.....	.....
.....	Audit of United States Savings Bonds Accounts. Reconcile with Federal Reserve Bank.	.....	.....	.....
.....	Audit of Accounting Department.	.....	.....	.....
.....	Audit of Board of Directors.	.....	.....	.....
.....	Prepare list of directors show- ing their holdings and attendance at meetings.	.....	.....	.....
.....	Review minutes of Board of Directors and check for compliance.	.....	.....	.....
.....	Audit of Cashier or Operations Department.	.....	.....	.....
.....	Audit of Committees of the Bank.	.....	.....	.....
.....	Review By-laws of the Bank. Check for compliance.	.....	.....	.....
.....	Prepare a list of committees and their membership.	.....	.....	.....
.....	Review minutes of committee meetings. Check for com- pliance.	.....	.....	.....
.....	Audit of Comptrollers Department.	.....	.....	.....
.....	Prepare schedule of open Stop Payment Orders on official checks. Verify surety.	.....	.....	.....
.....	Review budgets and check for compliance. Compare with actual expenditures.	.....	.....	.....
.....	Review Charged Off File Report on current status.	.....	.....	.....
.....	Prepare schedule of insurance coverage.	.....	.....	.....
.....	Audit of Personnel Department.	.....	.....	.....

EXECUTING THE AUDIT

BANK AUDIT SCHEDULE

.....	Prepare schedule of all persons who left the bank since .....	.....
.....	..... Give reasons for leaving and verify.	.....
.....	Prepare list of loans made to employees. Show present status.	.....
.....	Prepare list of employees who have not taken a vacation during year. Show reason.	.....
.....	Prepare a list of employees habitually drawing overtime payments.	.....
.....	Audit of Premises.	.....
.....	Audit of Stationery and Supplies.	.....
.....	Review inventory in stock-room. Compare cost with control account figures.	.....
.....	Review requisitions for excess ordering.	.....
.....	Check purchase orders for proper authorization.	.....

CHAPTER LII

The Audit Report

The form or manner in which the results of an audit are presented to the Directors Examining Committee or the Board of Directors is of the greatest importance, if it is to be of value to the directors as a vehicle whereby they can become more familiar with the operations and management of the bank.

The audit report, if it is to be effective in assisting the directors in becoming more familiar with the operations of the bank and an important tool of management, should not only disclose the results of the work performed BUT the manner in which the work was performed. It should not only point out the weaknesses in the internal control system, BUT make recommendations and suggestions for establishing more effective auditing controls and procedures, if and where warranted.

While it is the responsibility of the directors to see that the bank is properly managed and that the funds entrusted to the bank by the stockholders and the depositors are safeguarded, it is likewise the responsibility of the bank's own auditor or the accountant engaged by the Directors Examining Committee or the Board of Directors, to conduct the audit in a manner which will contribute to, or assist the directors in discharging their obligations and responsibilities.

While we will not go into the details of the moral or legal responsibilities involved, it is well to point out that while directors might comply with the banking laws, they do not discharge their legal or moral responsibility to stockholders and depositors by compromising on the scope of an audit nor do accountants discharge their moral or legal responsi-

bilities by agreeing to undertake a bobtailed audit because it is cheaper and what the directors want. Directors would be better off not to have an audit under such circumstances, and certainly under the same circumstances, accountants would better serve their profession if they refused to be a party to anything short of a thorough audit.

The auditor for a bank, if he follows a routine established on an annual rotating basis, similar to that which is set up in Chapter LIII, should make periodical reports to the Directors Examining Committee or Board of Directors.

Such reports, while they should reflect the scope of the work actually performed, should not, especially if active officers of the bank are members of the Directors Examining Committee, indicate in any way any pattern or give any inkling as to *when* or *how* the routine was undertaken, or will be repeated.

The auditor, in addition, should make a serious effort to change his method of auditing and the procedure followed so that it would be extremely difficult, if not impossible, for anyone to determine where, when or how the routine would be executed in the future. Difficult? Perhaps—but the test of a good auditor.

In writing an audit report, it is important to arrange the text so that a transmittal letter or section of the report contains an outline of the contents of the report. It is also advisable that each section discloses the name and description of the accounts audited; the method or procedure used to audit the account; what was found or disclosed by the procedure followed; and comments or suggestions, which if adopted, would contribute to the establishing of better audit controls or protective procedures.

The letter of transmittal should be so devised as to contain the introduction, a list or index of the schedules or transcripts included as part of the report; and disclose the number and identification of the pages in the report to prevent substitutions.

The accounts to be audited, can be determined by checking off the accounts carried by the respective bank as disclosed by a review of their daily statement of condition against the chart of accounts, as shown in Chapter V, Exhibit 21 and 22 or against the Audit Schedule, as described in Chapter LI.

The description of the methods or procedures followed in auditing the respective accounts are obtained from describing the "Procedures" as set forth in each chapter.

What was found or disclosed by the audit is determined from the comments set forth following the answers to questions in the "Procedure" and the answers to the questions set forth in the "Questionnaire" in each chapter.

The report proper should be divided into sections, each section to apply to a control account. Each section should begin on a separate sheet. This practice is recommended so that the Directors Examining Committee or Board of Directors can unbind a copy of the report and distribute it to the heads of the department effected as a guide for instituting corrective methods recommended. It can also be used in reporting back to the Directors Examining Committee or Board of Directors compliance with the recommendations or suggestions made.

An outline of a letter of transmittal and report proper, together with excerpts from a typical report covering the auditing of a section, are set forth for the guidance of the bank's own auditor, the Directors Examining Committee or outside accountants acting in behalf of the Directors Examining Committee or Board of Directors below and at the end of this chapter.

EXCERPTS FROM A TYPICAL REPORT COVERING AUDIT OF A SECTION

(The first control account, Cash and Due From Banks, usually found on a Statement of Condition, is used as the example.)

THE AUDIT REPORT

"CASH AND DUE FROM BANKS \$.....

Cash on Hand - Reserve \$.....

Cash oi Hand - Tellers \$.....

Cash Items \$.....

Clearings \$.....

Items in Transit \$.....

Due from Banks

.....Bank.....\$.....

.....Bank.....\$.....

.....Bank.....\$.....

.....Bank.....\$.....

.....Bank.....\$.....

Currency and coin in possession of the tellers and bank reserve cash under the joint control of the head paying teller and the cashier, was counted. Totals were found to be in balance with the general ledger control figures.

All tellers were found to be in balance, except C. Black, paying and receiving teller number 6, whose cash was found to be short \$1.31. This item was charged to Tellers Difference Account by order of the Auditor.

Cash items held under the control of the head teller were reviewed. Items were found to consist of Post Office Money Orders taken in during the current day's business and held over for presentation and payment the following morning and miscellaneous items (per Schedule V) all of which were in order and found to result from the normal conduct of business. All such items, except the Check of B. Brown for \$25.00, drawn on the 1st National Bank and returned by them for "No Account" were cleared up during our audit. We are informed that Mr. O. B.

BANK AUDITING

White, who endorsed and cashed the check, has been out of the city but will pick it up upon his return Monday, February 4.

Clearing items or exchanges with other banks were reviewed as to date and endorsement. All were found in order.

A list of all items \$500.00 and over was taken off. All items were traced to endorsers account or other disposition confirmed. All transactions were found to be in order.

Items in transit or sent to correspondent banks for collection, were reviewed. All items \$500.00 and over were traced to original source or depositor's account and found in order.

All items returned by local or correspondent bank for five days following the beginning of the audit for Insufficient Funds or other reasons were intercepted and traced to their source. All were either charged back to the account of the depositor who originally deposited or cashed the item and return was accepted or confirmed, or item was disposed of satisfactorily.

Accounts maintained with correspondent banks were directly confirmed and verified. All were properly reconciled, except the account with the 1st National Bank of, whose account was short \$4.55. This error was caused by the bank putting through charges on January 6, covering exchange charges on two items of the A. B. C. Company, Manila, P. I., deposited by the Acme Manufacturing Company on December 27, the advice of charge which was not received by the bank. Proper adjustment was made during the audit.

During the course of our audit, it was observed that the tellers when they leave their cage for a short period of time, fail to lock the door of their cage, also that some of the tellers when they go to

THE AUDIT REPORT

lunch do not put away their wrapped coin. As under the circumstances, the contents of the cage are accessible to anyone in the bank, and to prevent any misappropriation of funds, it is suggested that instructions be given the tellers to lock their cages when leaving even for a short time and to put their wrapped coin in the drawer provided, which is equipped with a lock, when they go to lunch.

It was also noted that tellers J. Smith, R. Burke, and S. Black frequently do not throw the tumblers on their vault compartment in the morning after they have removed currency and silver for the current day's business, which leaves their surplus or excess cash unprotected. This is a practice fraught with danger. It is recommended that either all currency and coin be removed from the vault compartment each day or that the compartments be kept locked at all times. The probability that they are carrying more cash than required for use in normal course of business should be investigated."

An outline of Audit Report —
Transmittal Letter and outline
of the Audit Report Proper will
be found on the following pages.

BANK AUDITING

OUTLINE OF AUDIT REPORT — TRANSMITTAL LETTER

(Letterhead of Bank or Auditing Company)

(Board of Directors) (Directors Examining Committee)

(Name of Bank).....

(Address)

Gentlemen:

In accordance with your (request) (instructions), we have undertaken (an audit) (a balance sheet examination) of (Name of Bank, Department or Section) as of the close of business(Date).....

The results of our (audit) (examination) and the scope and manner of checking and verifying are herewith detailed for your information.

We also submit as of(Date of Service)..... the following exhibits: (List, by title and detail and in chronological order, all transcripts, schedules and reports prepared or made part of the audit or examination.)

A report covering verification of (checking) (savings) (loan) (safe keeping) accounts will be furnished as a supplement to this report, when completed.

During the course of our (audit) (examination) we received excellent cooperation from the officers and members of the staff. To them (especially — Name) we express our appreciation and our thanks.

This report consists of (Number) pages, each of which (bears our watermark) (carries the initials of the undersigned).

Respectfully submitted,

(Name of Auditor)

(Name of Accounting Firm)

(Date)

THE AUDIT REPORT

OUTLINE OF AUDIT REPORT PROPER

(Name of Control Account)..... \$.....

..... \$.....

..... \$.....

..... \$.....

..... \$.....

..... \$.....

..... \$.....

(Description of procedure followed — What was done — How it was done.)

(Description of matters disclosed by the procedure followed — What was found.)

(Recommendations for effecting improvements or in correcting matters which require attention.)

CHAPTER LIII

Planning the Audit Routine Schedule

The Board of Directors, Directors Examining Committee or outside accountants engaged by the Board of Directors or Directors Examining Committee to examine or audit the affairs of the bank, most probably would conduct a complete audit of the bank on an annual basis, by following the procedures and outlines as described in the previous chapters.

Where the bank has its own auditor, responsible only to the Board of Directors or Directors Examining Committee, or engages the services of an outside accountant, however, the most practical approach to having the directors discharge their obligations to stockholders and depositors, is by setting up the audit program on a continuous basis.

Under a continuous or revolving basis, the entire audit program is set up for execution during a calendar year; or scheduled at times, the frequency of which is determined by the exposure or risk involved in the operation or particular type of transaction being audited.

In order that the auditor of the bank, or outside accountant engaged by the Board of Directors or Directors Examining Committee, can develop an audit program, adaptable to a continuous procedure, it is desirable to have an audit routine schedule to use as a guide in executing the program.

The audit routine schedule which is set up at the end of this chapter for guidance was developed from the the audit program described by section in the previous chapters of the book. While this audit routine schedule can be adopted as it is set up, it is suggested that it be compared against the chart of accounts used by the respective bank and only those routines applicable to the accounts or ac-

counting system of the bank, be used. In other words, the schedule should be modified to fit the needs of the individual bank.

The frequencies suggested in the routine for auditing a particular operation or procedure should be considered the minimum, and are set forth with the presumption that the operating methods and procedures, as used in the particular department or division of the respective bank, are somewhat standard and devised to handle a normal volume. Any activity though to be extraordinary or excessive, as compared with other banks, most assuredly should be analyzed to determine if the risk or exposure involved warrants additional controls or an increased frequency of auditing procedures.

After the auditor of the bank or accountant retained by the Board of Directors or Directors Examining Committee has analyzed the operations of the bank and determined that the chart of accounts and accounting records as set up in the general ledger control accounts and subsidiary records are sufficient to properly reflect the condition of the bank, they should adjust the audit routine, determined necessary under the circumstances, to cover such accounts or operations of the bank.

When the audit routine has been set up, the auditor or accountant should estimate the number of manhours required to complete the schedule and compare the manhours of the staff available to carry out program. If the auditor does not have a large enough staff available to properly execute the program, *he believes necessary under the circumstances*, he should request the Board of Directors to provide the necessary staff.

If the outside accountant does not have a large enough staff of men qualified to execute the audit routine *he believes necessary*, he should make the fact known to the Board of Directors.

Under no circumstances should the auditor of the bank or the outside accountant modify or adjust their program or routine to conform to the available labor hours of the staff or a price, *UNLESS* such modification is authorized and approved by the directors *IN WRITING*. Compromising the

scope of an audit program, which is believed warranted under the circumstances, is fraught with danger.

After the accounts or operations to be covered under the audit routine schedule have been selected, and frequency of audit determined, the next step is to chart the routine to respective months so that the labor hours of the staff can be productively used and peak and valley work flow held to a minimum. This charting, however, should be modified annually by the auditor himself so that no officer, employee or member of the audit staff can determine when, or the order in which the program will be applicable to a particular department, division, account or function.

In reviewing the audit routine and in developing a schedule it is well to remember that often a section or routine, involving a large number of people can be executed by switching personnel or exchanging records. For example; tellers cash can be verified by having tellers exchange their cash and verify same under the supervision of the auditor and by having a substitute take over the cage in the morning and verify the cash count as of the close of business the previous day.

The auditing of the commercial and savings bookkeeping departments can be done in a similar manner—by having the checking account bookkeepers post, run and balance the savings ledgers and by having the savings bookkeepers run and balance the checking account ledgers.

It is well to also remember that wherever the audit routine or schedule is on a continuous or frequent periodic basis, the "Procedure" suggested to be followed and the "Questionnaire" to be applied should be modified so as to eliminate other than on an annual basis, certain detailed routines each time.

In executing an audit program or in setting up an audit routine schedule, it is always best to be mindful of the fact that the effectiveness of an audit program or routine is in the uncertainty of its execution. It is in not knowing *WHERE, WHEN OR HOW* a certain episode or experience is going to take place that keeps us always alert—and ready for the episode or experience when it takes place.

PLANNING THE AUDIT ROUTINE SCHEDULE

AUDIT ROUTINE SCHEDULE

Chart of Account Number	Title of Account to be Audited	Frequency of Audit	Schedule for Month of
1/13	Cash and Cash Items	Monthly	.....
3	Exchanges for Clearings	Semi-Annual	.....
7	Clearings between Main Office and District Offices	Quarterly	.....
9	Cash Items in Transit Correspondent Banks	Quarterly	.....
11	Cash Items in Transit Other Banks	Quarterly	.....
17	Due from Federal Reserve Bank	Semi-Monthly	.....
19	Due from Domestic Banks	Semi-Monthly	.....
21	Due from Foreign Banks	Semi-Monthly	.....
27/39	Time and Demand Loans	Semi-Annual	.....
41/47	Construction and R. E. Loans	Semi-Annual	.....
49/51	Auto Loans and Discounts	Quarterly	.....
53	Installment or Personal Loans	Semi-Annual	.....
57	Overdrafts	Monthly	.....
59/63	Bills of Exchange, Acceptances and Miscellaneous	Quarterly	.....
65	Direct Verification of Loans	{ Continuous or Annual	.....
67/93	Investment Securities		.....
97/121	Properties Account	Annual	.....
127	Accrued Interest Receivable	Annual *	.....
129	Interest Earned but not Collected	Semi-Annual*	.....
131	Other Income Earned or Accrued but not Collected	Semi-Annual*	.....
137	Interest and Discount on Borrowed Money	Semi-Annual	.....
139	Interest Paid on Deposits	Semi-Annual	.....
141	Taxes Paid	Semi-Annual	.....
143	Depreciation	Annual	.....
147	Fees Paid to Directors and Com- mittees	Annual*	.....
149	Salaries and Overtime Paid	Semi-Annual*	.....
151	Other Operating Expenses	Semi-Annual*	.....
157	Losses on Loans	Quarterly	.....
159	Sundry Losses	Quarterly	.....
161	Losses on Sale of Securities	Quarterly	.....
163	Losses on Sale of Other Property	Quarterly	.....
167	Accounts Receivable	Semi-Annual	.....
169	Teller's Difference	Monthly*	.....
171	Hold Over Debits	Monthly	.....
173	Customer Liability Under Letters of Credit	Semi-Annual	.....

BANK AUDITING

Chart of Account Number	Title of Account to be Audited	Frequency of Audit	Schedule for Month of
177	Prepaid Expense	Semi-Annual	.....
181	Sundry Resources	Semi-Annual	.....
12/12	Public Fund Demand Deposits	Semi-Annual	.....
	Secured by Collateral		.....
22/28	U. S. Govt. Demand Deposits	Semi-Annual	.....
	Secured by Collateral		.....
32/38	Regular and Special Demand Deposit Accounts	Semi-Annual	.....
42/48	Deposits Securing Liabilities Accounts	Semi-Annual	.....
52/58	Escrow and Fiduciary Deposit Accts.	Semi-Annual	.....
70	Due to Bank Accounts	Semi-Annual	.....
	Direct Verification of Demand Deposit Accounts	Continuous or Annual	.....
72/88	Official Checks	Semi-Annual	.....
92/102	Public Fund Time Deposit Accounts Secured by Collateral	Semi-Annual	.....
112/118	U.S. Govt. Time Deposit Accounts Secured by Collateral	Semi-Annual	.....
122/136	Regular and Special Time Deposit Accounts	Semi-Annual	.....
	Direct Verification of Time Deposit Accounts	Continuous or Annual	.....
142	Capital Stock	Annual	.....
144	Capital Notes and Debentures	Annual	.....
146	Surplus	Semi-Annual	.....
148	Undivided Profits	Monthly	.....
152/168	Reserve Accounts	Monthly	.....
172	Unearned Discount	Quarterly*	.....
176	Unearned F.H.A. and Other Service Fee Income	Quarterly*	.....
182	Accrued Interest Payable	Monthly *	.....
184	Accrued Expenses Payable	Monthly *	.....
186	Accrued Taxes Payable	Monthly *	.....
192	Interest Earned; Loans and Disc.	Semi-Annual*	.....
194	Interest Earned; Investments	Semi-Annual*	.....
196	Service Charges—Fees on Loans	Semi-Annual*	.....
198	Service Charges—Checking Accts.	Semi-Annual*	.....
202	Other Charges and Fees	Semi-Annual*	.....
204	Commissions	Semi-Annual*	.....
206	Exchange Charges	Semi-Annual*	.....
208	Rents Received	Semi-Annual*	.....
212	Safe Deposit Box Rent	Semi-Annual*	.....
214	Trust Department Fees	Semi-Annual*	.....
222	Recoveries on Loans	Quarterly	.....

PLANNING THE AUDIT ROUTINE SCHEDULE

Chart of Account Number	Title of Account to be Audited	Frequency of Audit	Schedule for Month of
224	Sundry Recoveries	Quarterly	.....
226	Profits from the Sale of Securities	Quarterly	.....
228	Profits from Sale of Other Property	Quarterly	.....
232	Accounts Payable	Semi-Annual	.....
234	Teller's Difference	Monthly*	.....
236	Hold Over Credits	Monthly	.....
238	Letters of Credit Outstanding	Semi-Annual	.....
242	Dividends Declared But Not Payable	Semi-Annual	.....
244	Rediscouts	Monthly	.....
246	Acceptances	Semi-Annual	.....
248	Advances Secured by Pledges of Securities	Monthly	.....
252	Sundry Liabilities	Semi-Annual	.....

Other Audits

.....	Trust Department	Separate schedule to be prepared and followed	.....
	Foreign Department	Semi-Annual	.....
	Incoming Collections	Semi-Annual*	.....
	Outgoing Collections	Semi-Annual*	.....
	Purchase and Sale of Securities for Customers	Semi-Annual	.....
	Safe Deposit Department	Annual	.....
	Safe Keeping	Semi-Annual	.....
	Direct Verification of Safe Keeping Accounts	Annual	.....
	Travellers Checks	Annual	.....
	United States Savings Bonds	Semi-Annual	.....
	Accounting Department	Annual	.....
	Board of Directors	Annual	.....
	Cashiers Department	Annual	.....
	Committees of the Bank	Annual	.....
	Comptrollers Department	Annual	.....
	Premises	Annual	.....
	Stationery and Supplies	Annual	.....

* or Continuous



EXHIBITS

EXHIBITS

EXHIBIT 1

COMPARATIVE STATEMENT OF CONDITION (00.00 Omitted)

Resources	Current Month	Same Month Last Year	Increase	Decrease
Cash and Due from Banks
Loans and Discounts
Bonds and Investments
Banking House
Furn-Fixt-Mach-Equipt.
Tellers Difference
Cust. Liab. under L of C
Other Resources
Total Resources
Liabilities				
State-Municipal-U.S.Govt.				
Demand Deposits
Regular and Special				
Demand Deposits
Escrow and Fiduciary				
Demand Deposits
Due to Banks
Official Checks
State-Municipal-U.S.Govt.				
Time Deposits
Regular and Special				
Time Deposits
Escrow and Fiduciary				
Time Deposits
Capital
Surplus
Undivided Profits
Reserves
Teller's Difference
Letters of Cr. Outstanding
Other Liabilities
Total Liabilities

BANK AUDITING

EXHIBIT 2

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Income from Current Operations	Current Month	Year to Date	Previous Year to Date
Interest on Loans and Discounts
Interest on U.S. Govt. Securities
Interest on Other Securities
Service Charges—Checking Accounts
Other Service Charges
Exchange Charges
Fees and Commissions
Trust Department Fees
Rent—Safe Deposit Boxes
Building Income
TOTAL INCOME—CURRENT OP'NS
Expense from Current Operations			
Salaries—Officers
Salaries—Employees
Directors Fees
Interest Paid or Reserved
Taxes—Other than Income Taxes
Depreciation
Rent Paid
Advertising
Telephone—Telegraph
Postage
Stationery—Supplies
Printing
Legal Expense
F.D.I.C. Assessment
Insurance and Surety Bonds
Miscellaneous
TOTAL EXPENSE—CURRENT OP'NS
NET EARNINGS—CURRENT OP'NS
PLUS Recoveries—Transfers from Valuation Reserves — Profits (See Memo)
LESS Losses—Charge Offs and Transfers to Valuation Reserves (See Memo)
Profits Before Income Taxes
Reserve for Income Taxes
Net Profit for Current Period

(Continued on next page)

UNDIVIDED PROFITS ACCOUNT

REPORT OF CHANGES IN THE INVESTMENT ACCOUNT

287

LOAN REPORT

288

EXHIBIT 5

Date	Name of Account	Amount	Officer Handling
------	-----------------	--------	------------------

289

BANK AUDITING

EXHIBIT 6

REPORT OF ACCOUNTS OPENED MONTH OF

[illegible]

EXHIBIT 7

Date	Name	Closing Balance	Average Balance	Reason for Closing
------	------	-----------------	-----------------	--------------------

[illegible][illegible]

BANK AUDITING

EXHIBIT 8

Suggested form of letter to be used by Directors Examining Committee in confirming loan accounts. Letter is set up for use with a window envelope.

(Name of Bank)

(Bank's own letter head can be used)

.....(Date).....

.....(Name).....

.....(Address)

.....(Town)

Dear Customer:

In accordance with the banking laws of the State of (Name) , the directors are undertaking their customary examination. To assist us in making this examination, will you please confirm the correctness of the following information by signing in the space provided below and returning in the enclosed envelope. Please notify us promptly of any exceptions.

Our records indicate that at the close of business (Date) you were indebted to this bank, as follows:

AMOUNT	NOTE DATED	DUE
--------	------------	-----

Our records also show that we hold the following securities as collateral to the loan:

We appreciate your cooperation.

Very truly yours,

(Facsimile signature)

For the Directors Examining
Committee

To Directors Examining Committee

(Name of Bank)

(Address of Bank)

Gentlemen:

The statement of my borrowing account as of the close of business (Date) is correct.

.....
Signature

Signature should be authorized and on file with the bank.

EXHIBITS

EXHIBIT 9

Suggested form of letter to be used by Directors Examining Committee in confirming savings accounts. Letter is set up for use with window envelope.

(Name of Bank)

(Bank's own letterhead can be used)

.....(Date).....

.....(Name).....

.....(Address)

.....(Town)

Dear Customer:

In accordance with the banking laws of the State of (Name), the directors are undertaking their customary examination. To assist us in making this examination, will you please verify the correctness of the balance of your savings account, as shown below, by signing in the space provided and returning this form to us in the enclosed envelope.

We thank you for your cooperation.

Very truly yours,

(Facsimile signature)

For the Directors Examining Committee

To Directors Examining Committee

(Name of Bank)

(Address of Bank)

Gentlemen:

The statement of my Savings Account No. showing a balance of \$..... as of the close of business (Date) is correct

.....
Signature

Signature should be authorized and on file with the bank.

BANK AUDITING

EXHIBIT 10

Suggested form of letter to be used by Directors Examining Committee in confirming checking accounts. Letter is set up for use with a window envelope.

(Name of Bank)

(Bank's own letterhead can be used)

.....(Date).....

.....(Name).....

.....(Address)

.....(Town)

Dear Customer:

In accordance with the banking laws of the State of (Name), the directors are undertaking their customary examination. To assist us in making this examination, will you please verify the correctness of the balance of your checking account, as shown below, by signing in the space provided and returning this form to us in the enclosed envelope.

A statement of your account as of the close of business (Date) together with cancelled checks, is enclosed.

We appreciate your cooperation.

Very truly yours,

(Facsimile signature)

For the Directors Examining Committee

To Directors Examining Committee

(Name of Bank)

(Address of Bank)

Gentlemen:

The statement of the account showing a balance of \$.....
as of the close of business (Date) is correct.

.....
Signature

Signature should be authorized and on file with the bank.

EXHIBITS

EXHIBIT 11

Suggested form of letter to be used by Directors Examining Committee in following up requests for confirming balances of respective types of accounts. Letter is set up for use with a window envelope.

(Name of Bank)

(Bank's own letterhead can be used)

.....(Date).....

.....(Name).....

.....(Address)

..... (Town)

Dear Customer:

In accordance with the banking laws of the State of (Name) , the directors recently undertook their customary examination.

In this connection, a letter was forwarded to you for the purpose of verifying the balance of your(Type)..... account as of the close of business (Date). Up to the present time we have not been favored with a reply.

To complete our records we respectfully request you to sign and return the confirmation letter to us within the next few days. Should we not receive the confirmation letter duly signed by (Date)* we shall presume that the balance as shown in our letter of (Date of original letter) is correct and shall indicate same on our records accordingly.

Very truly yours,

(Facsimile signature)

For the Directors Examining Committee

*Date to be inserted is set for ten days after date of letter which is sent out thirty days after original confirmation request was made.

BANK AUDITING

EXHIBIT 12

Suggested form of letter to be used by accounting firms in confirming balances of savings accounts in connection with conducting examinations or audits in behalf of the directors.

Letter is set up for use with a window envelope.

(Name of Accounting Firm)

Firm's own letterhead can be used.

.....(Date).....

.....(Name).....

.....(Address)

.....(Town).....

Dear Sir or Madam:

On behalf of the directors and in accordance with the banking laws of the State of (Name) , we are undertaking an audit of the (Name of Bank).

To assist us in making this audit, will you please verify the correctness of the balance of your savings account, as shown below, by signing in the space provided and returning to us in the enclosed postage prepaid envelope. Should the amount as shown not be in agreement with your records, please inform us fully as to the difference.

We thank you for your cooperation.

Very truly yours,

(Name of Company)

(Facsimile signature of examiner in charge)

(Name of Company)

(Home office address or special Box number in town where bank is located.)

Gentlemen:

The statement of my Savings Account No..... showing a balance of \$..... as of the close of business (Date) is correct.

.....
Signature

Signature should be authorized and on file with the bank.

EXHIBITS

EXHIBIT 13

Suggested form of letter to be used by accounting firms in confirming balances of checking accounts in connection with conducting examinations or audits in behalf of the directors.

Letter is set up for use with a window envelope.

(Name of Accounting Firm)

(Firm's own letterhead can be used)

.....(Date).....

.....(Name).....

.....(Address)

.....(Town)

Dear Sir or Madam:

On behalf of the directors and in accordance with the banking laws of the State of (Name) , we are undertaking an audit of the (Name of Bank).

To assist us in making this audit, will you please verify the correctness of your checking account balance as shown at the bottom of this request in the space provided and return to us in the enclosed postage prepaid envelope. Should the amount as shown not be in agreement with your records, please inform us fully as to the difference.

The statement of your account for the period ending (Date) , together with cancelled checks undelivered to you, is enclosed.

We thank you for your cooperation.

Very truly yours,

(Name of Company)

(Facsimile signature of examiner in charge)

(Name of Company)

(Home office address or special Box number in town where bank is located)

Gentlemen:

This will acknowledge receipt of cancelled checks and statement for period ending (Date). The balance of the account \$(Amount) as shown by the statement is correct and agrees with my records.

.....
Signature

Signature should be authorized and on file with the bank.

BANK AUDITING

EXHIBIT 14

Suggested form of letter to be used by accounting firms in confirming balances of borrowing accounts in connection with conducting examinations or audits in behalf of the directors.

Letter is set up for use with a window envelope.

(Name of Accounting Firm)

Firm's own letterhead can be used

.....(Date).....

.....(Name).....

.....(Address).....

.....(Town).....

Dear Sir or Madam:

On behalf of the directors and in accordance with the banking laws of the State of (Name) , we are undertaking an audit of the (Name of Bank).

To assist us in making this audit, will you please verify the correctness of your loan account balance, as shown below, in the space provided and return to us in the enclosed postage prepaid envelope. Should the amount as shown not be in agreement with your records, please inform us fully of the difference.

The records of the bank indicate that as of the close of business (Date) you were indebted to the bank as follows:

AMOUNT	NOTE DATED	DUE
--------	------------	-----

Records show that the bank holds the following securities as collateral to the loan.

We appreciate your cooperation.

Very truly yours,
(Name of Company)

(Facsimile signature of examiner in charge)

(Name of Company)

(Home office address or special Box number in town where bank is located.)

Gentlemen:

Statement of the above loan and collateral account as of the close of business (Date) as above described is correct.

.....
Signature

Signature should be authorized and on file with the bank.

E X H I B I T S

EXHIBIT 15

Suggested form of letter to be used by accounting firms in following up requests for confirming balances of respective types of accounts.

Letter is set up for use with a window envelope.

(Name of Accounting Firm)

Firm's own letterhead can be used.

.....(Date).....

.....(Name).....

..... (Address).....

.....(Town)

Dear Sir or Madam:

On behalf of the directors and in accordance with the banking laws of the State of (Name) , we recently undertook an audit of the (Name of Bank).

In this connection a letter was forwarded to you requesting you to verify the balance of your(Type)..... account as of the close of business (Date). Up to the present time we have not been favored with a reply.

In order to complete our records, we respectfully request that you sign and return the confirmation letter so as to reach us within the next few days. Should we not receive the confirmation letter duly signed by (Date*), we shall presume that the balance as shown by our letter of (Date of original letter) is correct and shall indicate same on our report to the directors.

Very truly yours,

(Name of Company)

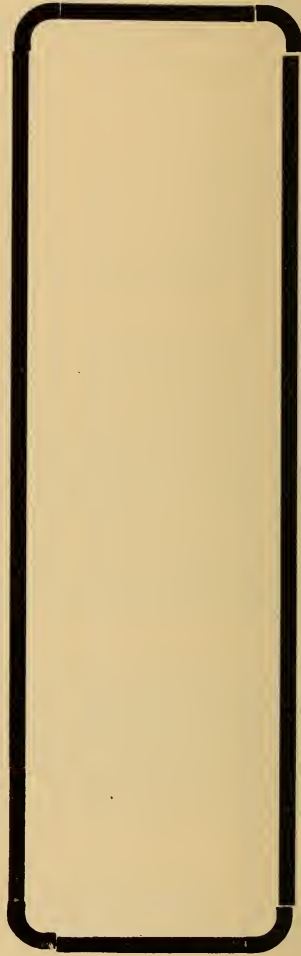
(Facsimile signature of examiner in charge)

*Date to be inserted is set for ten days after the date of letter which is sent out thirty days after original confirmation request was made.

BANK AUDITING

EXHIBIT 16

After 5 days, return to
Post Office Box Number —
(TOWN - STATE)



OUTGOING ENVELOPE

EXHIBITS

EXHIBIT 17

<p>Postage Will be Paid by Addressee</p>	<p>No Postage Stamp Necessary If Mailed in the United States</p>
<p>BUSINESS REPLY ENVELOPE</p> <p>FIRST CLASS PERMIT NO. — SEC. 34.9 P. L. & R.</p>	
<p> </p> <p> </p> <p> </p> <p> </p> <p> </p> <p> </p> <p> </p> <p> </p>	
<p>(NAME OF BANK)</p>	
<p>BOX (NUMBER)</p>	
<p>(TOWN)</p>	

RETURN ENVELOPE

VERIFICATION SCHEDULE

(Insert Amounts)

EXHIBITS

EXHIBIT 19

Suggested short form to be used by the bank in confirming balances of deposit and borrowing accounts. In this type of form no insertion of the balance is required, as it is up to the customer to insert the balance as shown by the statement in which the notice is included, the amount as shown in his or her pass book or the record he or she maintains of their borrowings. The forms are prepared from addressograph plates and numbered to facilitate sorting. Only the suitable phraseology is used.

(Name of Bank)

To assist us in an audit of the (Name of Department) will you please verify the correctness of the balance of your (type) account as shown by (the current statement of your account) (your Savings Pass Book) (your records) and confirm it to us in the following manner:

1. Insert the balance amount in the space below.
2. Sign with signature on file with the bank.
3. Return this confirmation in the enclosed envelope.

(Name printed)
Auditor

To Auditor:
(Name of Bank)

PLEASE SIGN AND RETURN THIS
CONFIRMATION PROMPTLY

FROM (Completed from Addresso- (Number)
graph Plate)

(Date)

The balance of my (type) Account \$..... on the
above date is correct.

.....
Signature must be authorized
and on file with the bank.

BANK AUDITING

EXHIBIT 20

Suggested short form of confirmation to be used by a public accounting firm with authorization by the bank. In this form the names are either put in from the addressograph plates or typed in. Balances are typed in.

(Name of Bank)

(Address)

A periodic audit of our accounts is being made by (Name of Firm and address). In this connection, would you please confirm to them that the balance of your (type) account, as shown below, is correct by signing this form in the space provided and returning direct to them in the envelope which is enclosed. Thank you for your cooperation.

(Name printed)

President

The balance of my (type)
account \$..... as
shown by your records as of
(Date) is correct.

.....
Signature must be authorized
and on file with the bank.

Please report any difference on the reverse side.

Form to be condensed to fit in standard size window envelope.

EXHIBITS

EXHIBIT 21

RESOURCES

Classification	Number	
Cash	1	.....
Exchange for Clearings	3	.....
Clearings between Main Office and Dist. Offices	7	.....
Cash Items in Transit to Correspondent Banks	9	.....
Cash Items in Transit to Other Banks	11	.....
Cash Items in Process of Collection	13	.....
.....
Due from Federal Reserve Bank	17	.....
Due from Domestic Banks	19	.....
Due from Foreign Banks	21	.....
.....
.....
.....
TOTAL CASH AND DUE FROM BANKS	25	.....
Time Loans Secured—Marketable Collateral	27	.....
Time Loans Secured—Other Collateral	27-1	.....
Time Loans Unsecured	27-2	.....
.....
Demand Loans Secured—Marketable Collat.	29	.....
Demand Loans Secured—Other Collateral	29-1	.....
Demand Loans Unsecured	29-2	.....
.....
Discounts	31	.....
Farm Loans	33	.....
Discounted Sight Drafts in Process of Coll.	37	.....
Commercial Paper	39	.....
Construction Loans — Conventional	41	.....
Construction Loans Under F.H.A. Commit.	41-1	.....
F.H.A. Title II Loans $4\frac{1}{2}\%$	43	.....
F.H.A. Title II Loans $4\frac{1}{4}\%$	43-1	.....
F.H.A. Title VI Loans	43-2	.....
F.H.A. Loans Offered for Sale	43-3	.....
Veterans Loans	43-4	.....
F.H.A. Title I Loans	43-5	.....
.....
Conventional R. E. Mortgage Loans	47	.....
Loans to Auto Dealers	49	.....
Discounts to Auto Dealers	51	.....
.....
Installment Loans — Personal	53	.....
Installment Loans — Automobile	53-1	.....
Installment Loans — Appliance	53-2	.....

BANK AUDITING

Classification	Number
Overdrafts	57
Bills of Exchange	59
Payment made under Letters of Credit	61
Acceptances	63
TOTAL LOANS AND DISCOUNTS	65
U.S. Govt. Bonds — Unpledged	67
U.S. Govt. Bonds — Pledged	67-1
U.S. Govt. Notes — Unpledged	69
U.S. Govt. Notes — Pledged	69-1
U.S. Govt. Cert. of Ind. — Unpledged	71
U.S. Govt. Cert. of Ind. — Pledged	71-1
U.S. Treasury Bills	73
Other U.S. Govt. Obligations	77
State Obligations — Unpledged	79
State Obligations — Pledged	79-1
County Obligations — Unpledged	81
County Obligations — Pledged	81-1
Municipal Obligations — Unpledged	83
Municipal Obligations — Pledged	83-1
Railroad Bonds; Debentures	87
Utility Bonds; Debentures	89
Federal Reserve Bank Stock	91
Other Bonds, Notes, Debentures	93
TOTAL BONDS AND INVESTMENTS	95
Bank Premises	97
Bank Premises, Equipment	99
Bank Premises under Construction	101
Other Real Estate	109
Buses, Cars, Motorcycles, etc.	111
Office Furniture and Fixtures	113
Office Machines and Equipment	117
Fix., Equip., Leasehold Imp. Bldg. Under Con.	119

EXHIBITS

Classification	Number	
Fixtures — Equipment Leasehold Improve.	121	.....
.....
TOTAL PROPERTIES	125	.....
Accrued Interest Receivable	127	.....
Interest Earned but not Collected	129	.....
.....
Other Income Earned or Accrued but not Collected	131	.....
TOTAL INCOME EARNED BUT NOT COLL.	135	.....
Interest and Discount on Borrowed Money	137	.....
Interest Paid on Deposits	139	.....
Taxes Paid	141	.....
Depreciation	143	.....
Fees Paid to Directors and Committees	147	.....
Salaries and Overtime Paid	149	.....
.....
.....
.....
Other Operating Expenses	151	.....
.....
TOTAL CURRENT EXPENSES FROM OPERAT.	155	.....
Losses on Loans	157	.....
Sundry Losses	159	.....
.....
Losses on the Sale of Securities	161	.....
Losses on the Sale of Other Property	163	.....
TOTAL CHARGES OR LOSSES	165	.....
Accounts Receivable	167	.....
.....
Teller's Difference	169	.....
.....
Hold Over Debits	171	.....
.....
Customer's Liability Under Letters of Credit	173	.....
.....
Prepaid Expenses	177	.....
.....
.....
.....
Sundry Resources	181	.....
.....
TOTAL OTHER RESOURCES	185	.....
TOTAL RESOURCES		.....

BANK AUDITING

EXHIBIT 22

LIABILITIES

Classification	Number	
State Deposits Sec. by Collateral (Demand)	2	.....
County Deposits Sec. by Collateral (Demand)	6	.....
City Deposits Sec. by Collateral (Demand)	8	.....
Other Pub. Fd. Deposits Sec. by Coll. (Demand)	12	.....
TOTAL PUBLIC FUND DEMAND DEPOSITS		
SECURED BY COLLATERAL	20	.....
U.S. Treas. Gen. Acct. Sec. by Coll. (Demand)	22	.....
Army, Navy and Air Forces Funds Secured by Collateral (Demand)	24	.....
U.S. Treasury Tax and Loan Account Secured by Collateral (Demand)	26	.....
Postal Savings Funds—Sec. by Coll. (Demand)	28	.....
TOTAL U.S. GOVT. DEPOSITS SECURED BY COLLATERAL	30	.....
Regular Checking Deposits	32	.....
Special Checking Deposits	34	.....
Inactive Checking Deposits	36	.....
Certificates of Deposit	38	.....
TOTAL REGULAR AND SPECIAL DEMAND DEPOSITS	40	.....
Marginal Deposits	42	.....
Undisbursed Loans and Related Deposits (F.H.A.)	44	.....
Customers Guarantee on Estab. Comm'l Credits	46	.....
Installment Payments to Auto Dealers	48	.....
TOTAL DEPOSITS SECURING LIABILITIES	50	.....
Deposits Under Special Instructions	52	.....
Trust Funds or Escrows	54	.....
Escrow Funds for Taxes/Ins.FHA and Vet. Loans	56	.....
Escrow Funds for Prin./Int. FHA and Vet. Loans	58	.....
TOTAL ESCROW AND FIDUCIARY DEPOSITS	60	.....
TOTAL DUE TO BANKS	70	.....
Certified Checks	72	.....
Expense Checks	74	.....

E X H I B I T S

Classification	Number	
Administrative Checks; Cashier Checks	76	.....
Dividend Checks	78	.....
Christmas Club Checks	82	.....
Money Orders	84	.....
.....		
Due to Local Banks for Returned Clear. Items	86	.....
.....		
Cash Letter of Credit	88	.....
TOTAL OFFICIAL CHECKS, ETC.	90	.....
.....		
State Deposits Sec. by Collateral (Time)	92	.....
.....		
County Deposits Sec. by Collateral (Time)	96	.....
.....		
City Deposits Sec. by Collateral (Time)	98	.....
.....		
Other Pub. Fund Dep. Sec. by Coll. (Time)	102	.....
.....		
TOTAL PUB. FUND TIME DEP. SEC. BY COLL.	110	.....
U.S. Treas. Gen. Acct. Secured by Coll. (Time)	112	.....
Army, Navy & Air Forces Funds Secured by Collateral (Time)		.....
U.S. Treas. Tax & Loan Account Secured by Collateral (Time)	116	.....
Postal Sav. Funds—Sec. by Coll. (Time)	118	.....
TOTAL U.S. GOVT. TIME DEPOSITS SECURED BY COLLATERAL	120	.....
Savings Deposits	122	.....
.....		
Christmas Club Deposits	124	.....
Savings Deposits (Personal Loans)	126	.....
Time Deposits Open Accounts	128	.....
Inactive Savings Deposits	132	.....
Unclaimed Balances	134	.....
Certificates of Deposit	136	.....
TOTAL REGULAR AND SPECIAL TIME DEP.	140	.....
Capital Stock Common	142	.....
Capital Stock Preferred Class A	142-1	.....
Capital Stock Preferred Class B	142-2	.....
Capital Notes or Debentures	144	.....
Surplus	146	.....
Undivided Profits	148	.....
.....		
TOTAL CAPITAL ACCOUNTS	150	.....
Reserves for Depreciation	152	.....
Reserve for Dividends	154	.....
Reserve for Income Tax	156	.....

BANK AUDITING

Classification	Number	
Reserve for Interest	158	.....
Reserve for Insurance	162	.....
Reserve for Municipal Taxes	164	.....
Reserve for Real Estate Taxes	166	.....
.....		
Other Special Reserves	168	.....
.....		
TOTAL RESERVES	170	.....
Unearned Discount	172	.....
Unearned F.H.A. Service Fee Income	176	.....
TOTAL INCOME COLLECTED BUT UNEARNED	180	.....
Accrued Interest Payable	182	.....
Accrued Expenses Payable	184	.....
Accrued Taxes Payable	186	.....
TOTAL EXPENSES ACCRUED BUT UNPAID	190	.....
Interest Earned; Loans and Discounts	192	.....
Interest Earned; Investments	194	.....
.....		
Service Charges and Fees on Loans	196	.....
Service Charges on Checking Accounts	198	.....
.....		
Other Charges and Fees	202	.....
Commissions	204	.....
Exchange Charges	206	.....
.....		
Rents Received	208	.....
.....		
Safe Deposit Box Rent	212	.....
.....		
Trust Department Fees	214	.....
.....		
TOTAL CURRENT INCOME FROM OPERATIONS	220	.....
Recoveries on Loans	222	.....
Sundry Recoveries	224	.....
.....		
Profits from the Sale of Securities	226	.....
Profits from the Sale of Other Property	228	.....
TOTAL RECOVERIES AND PROFITS	230	.....
Accounts Payable	232	.....
.....		
Teller's Difference	234	.....
.....		
Hold Over Credits	236	.....
.....		
Letters of Credit Outstanding	238	.....
.....		

EXHIBITS

Dividends Declared But Not Payable	242	.....
Rediscunts	244	.....
Acceptances	246	.....
Advances Secured by Pledges Securities	248	.....
Sundry Liabilities	252	.....
TOTAL OTHER LIABILITIES	260	.....
TOTAL LIABILITIES		.....

BANK AUDITING

EXHIBIT 23

CURRENT EXPENSES FROM OPERATIONS (DETAIL) 155

Classification	Number	
Interest on Overdrafts	137-1	.....
Interest on Advances for Other Purposes	137-2	.....
Discount on Acceptances	137-3	.....
.....		
TOTAL INT. AND DIS. ON BORROWED MONEY	137	.....
Int. paid on Public Demand Funds	139-1	.....
Int. paid on Public Time Funds	139-2	.....
Int. paid on Savings Deposits	139-3	.....
Int. paid on Time Deposits, Open Accounts	139-4	.....
Int. paid on Savings Deposits (Personal Loans)	139-5	.....
.....		
TOTAL INTEREST PAID ON DEPOSITS	139	.....
Property Taxes (R.E.; Pers. Prop.; Bank Stock)	141-1	.....
Municipal License Tax	141-2	.....
Social Security Tax	141-3	.....
Excise Tax & Internal Revenue Stamps	141-4	.....
Auto; Bus; Motorcycle; Bus License Tax	141-5	.....
Income Tax	141-6	.....
.....		
TOTAL TAXES PAID	141	.....
Depreciation Office Furniture/Fixtures	143-1	.....
Depreciation Machines and Equipment	143-2	.....
Depreciation Bank Building Equipment	143-3	.....
Depreciation Bank Building	143-4	.....
Depreciation Buses, Cars, etc.	143-5	.....
.....		
TOTAL DEPRECIATION	143	.....
FEES PAID TO DIRECTORS AND COMMITTEES	147	.....
Salaries: Bank Employees	149-1	.....
Salaries: Bank Officers	149-2	.....
Overtime Bank Employees	149-3	.....
Salaries: Building Employees	149-4	.....
Overtime Building Employees	149-5	.....
.....		
TOTAL SALARIES AND OVERTIME PAID	149	.....
Advertising—Calendars	151-1	.....
Direct Mail	151-1-A	.....
Magazines	151-1-B	.....
Newspapers	151-1-C	.....
Publicity	151-1-D	.....
Attorney Fees	151-2	.....
Automobile Allowances	151-3	.....
Building Improvement Amortization	151-4	.....

EXHIBITS

Classification	Number	
Cables—Bank Account	151-5	.....
Customer's Accounts	151-5-A	.....
Contributions	151-6	.....
Employees Welfare	151-6-A	.....
Donations—Charitable	151-7	.....
Civic	151-7-A	.....
Dues—	151-7-B	.....
Association	151-8	.....
Club	151-8-A	.....
Society	151-8-A	.....
Entertainment—Customers	151-9	.....
Convention	151-9-A	.....
New Business	151-9-B	.....
Examination—State Bank. Dept. or Offices	151-10	.....
Federal Bank. Dept. or Offices	151-10-A	.....
Express	151-11	.....
Flowers	151-12	.....
Freight	151-13	.....
Gasoline — Oil	151-14	.....
Gifts — Honorariums	151-15	.....
Hotels	151-16	.....
Insurance—Fire, etc., Machines, Equip- ment, Furniture, Fixtures	151-17	.....
Blanket Bond	151-17-A	.....
Accident	151-17-B	.....
Cash or Sec. Transferred	151-17-C	.....
Public Liability	151-17-D	.....
Safe Deposit Liability	151-17-E	.....
State Inc. (Workman's Comp.)	151-17-F	.....
F.D.I.C.	151-17-G	.....
Fire—Earthquake on Buildings	151-17-H	.....
Light — Power	151-18	.....
Luncheons —Customers	151-19	.....
Employees	151-19-A	.....
New Business	151-19-B	.....
Maintenance —Buildings	151-20	.....
Building Equipment	151-20-A	.....
Furniture & Fixtures	151-20-B	.....
Machinery & Equipment	151-20-C	.....
Mobile Units	151-20-D	.....
Mobile Units Equipment	151-20-E	.....
Other Real Estate	151-20-F	.....
Medical Examination & Expenses	151-21	.....
Pension Plan —Regular	151-22	.....
Special	151-22-A	.....

BANK AUDITING

Classification	Number	
Photographs	151-23	.....
Postage	151-24	.....
Professional Services	151-25	.....
Rent —Automobiles	151-26	.....
Bank Premises	151-26-A	.....
Garages & Others	151-26-B	.....
Machinery & Equipment	151-26-C	.....
Repairs—Building	151-27	.....
Building Equipment	151-27-A	.....
Furniture & Fixtures	151-27-B	.....
Machinery & Equipment	151-27-C	.....
Mobile Units	151-27-D	.....
Mobile Units Equipment	151-27-E	.....
Other Real Estate	151-27-F	.....
Stationery—Printing—Office Supplies	151-28	.....
Subscriptions — Magazines	151-29	.....
Newspapers	151-29-A	.....
Other	151-29-B	.....
Supplies —Building	151-30	.....
Others	151-30-A	.....
Taxi	151-31	.....
Telegraph	151-13	.....
Telephone—Local	151-33	.....
Long Distance	151-33-A	.....
Overseas	151-33-B	.....
Transportation—Bank Premises—Air	151-34	.....
Boat	151-34-A	.....
Railroad	151-34-B	.....
Transportation—Other— Air	151-34-C	.....
Boat	151-34-D	.....
Railroad	151-34-E	.....
Uniforms—Building	151-35	.....
Bank	151-35-A	.....
Water — Buildings	151-36	.....
Drinking	151-36-A	.....
Unallocated	151-37	.....
TOTAL OTHER OPERATING EXPENSES	151	.....
TOTAL CURRENT EXPENSES FROM OPERATIONS	155	.....

EXHIBITS

EXHIBIT 24

CURRENT INCOME FROM OPERATIONS (DETAIL) 220

Classification	Number	
Int. Earned; Time Loans	192-1	.....
Int. Earned; Demand Loans	192-2	.....
Int. Earned; Discounts	192-3	.....
Int. Earned; Farm Loans	192-4	.....
Int. Earned; Disc. Sight Drafts in Coll.	192-5	.....
Int. Earned; Const. Loans-Conventional	192-6	.....
Int. Earned; Const. Loans-F.H.A. Commit.	192-7	.....
Int. Earned; F.H.A. Title II	192-8	.....
Int. Earned; F.H.A. Title VI	192-9	.....
Int. Earned; Veterans Loans	192-10	.....
Int. Earned; F.H.A. Title I	192-11	.....
Int. Earned; Conventional R.E. Mtg. Loans	192-12	.....
Int. Earned; Loans to Auto Dealers	192-13	.....
Int. Earned; Disc. to Auto Dealers	192-14	.....
Int. Earned; Install. Loans — Personal	192-15	.....
Int. Earned; Install. Loans — Automobile	192-16	.....
Int. Earned; Install. Loans — Appliance	192-17	.....
Int. Earned; Overdrafts	192-18	.....
Int. Earned; Letters of Credit	192-19	.....
TOTAL INTEREST EARNED ON LOANS AND DISCOUNTS	192	.....
Int. Earned; U.S. Govt. Bonds — Taxable	194-1	.....
Int. Earned; U.S. Govt. Bonds — Non Tax.	194-2	.....
Int. Earned; U.S. Govt. Notes	194-3	.....
Int. Earned; U.S. Govt. Ctf. of Ind.	194-4	.....
Disc. Int. Earned; U.S. Treas. Bills	194-5	.....
Int. Earned; Other U.S. Govt. Oblig.	194-6	.....
Int. Earned; State Obligations	194-7	.....
Int. Earned; County Obligations	194-8	.....
Int. Earned; Municipal Obligations	194-9	.....
Int. Earned; Railroad Bonds — Debentures	194-10	.....
Int. Earned; Utility Bonds — Debentures	194-11	.....
Int. Earned; Other Bonds or Debentures	194-12	.....
TOTAL INTEREST ON INVESTMENTS	194	.....
Delayed Pay. Chg; Installment Loans	196-1	.....
Delayed Pay. Chg; F.H.A. Title II and VI	196-2	.....
Delayed Pay. Chg; F.H.A. Title I	196-3	.....
Fees — New F.H.A. Loans	196-4	.....
Fees — Commercial Loans and Discounts	196-5	.....
Fees — Auto Dealers	196-6	.....
TOTAL CHARGES AND FEES ON LOANS	196	.....
Service Charges — Reg. Checking Accounts	198-1	.....

BANK AUDITING

Classification	Number	
Service Charges — Per. Checking Accounts	198-2	.....
TOTAL SERVICE CHARGES ON CHECKING ACCOUNTS	198	.....
Stop Payment and Return Check Fees	202-1	.....
Charges on Savings Accounts	202-2	.....
Miscellaneous Charges	202-3	.....
F.H.A. Servicing Fees	202-4	.....
Redemption Fees; Defense Saving Bonds	202-5	.....
TOTAL OTHER CHARGES AND FEES	202	.....
Commissions; Comm'l Letters of Credit	204-1	.....
Commissions; Documentary Drafts in Transit	204-2	.....
Commissions; Collections	204-3	.....
Commissions; Miscellaneous	204-4	.....
Commissions; Travellers Letters of Credit	204-5	.....
Commissions; Travellers Checks Sold	204-6	.....
TOTAL COMMISSIONS	204	.....
Exchange Charges; Checks Dep./Cashed	206-1	.....
Exchange Charges; Sale of Foreign Drafts	206-2	.....
Exchange Charges; Purchase of Foreign Dr.	206-3	.....
TOTAL EXCHANGE CHARGES RECEIVED	206	.....
Rents Received; Main Office Building	208-1	.....
Rents Received; District Offices	208-2	.....
Rents Received; Other Buildings — Property	208-3	.....
TOTAL RENTS RECEIVED	208	.....
SAFE DEPOSIT BOX RENTALS	212	.....
TRUST DEPARTMENT FEES	214	.....
TOTAL CURRENT INCOME FROM OPERATIONS	220	.....

EXHIBITS

EXHIBIT 25

SAMPLE OF TELLER'S CASH DETAIL SHEET

Name of Teller Cage Number.....

Department.....

Office.....

TOTAL CASH AND CASH ITEMS \$.....

Cage Cash \$.....

Vault Cash \$.....

Total Cash \$.....

Cash Items per List \$.....

In Cage	Cash Verification	In Vault
.....	\$500.s — \$1000.s	.....
.....	100.s	.....
.....	50.s	.....
.....	20.s	.....
.....	10.s	.....
.....	5.s	.....
.....	2.s	.....
.....	1.s	.....
.....	Mutilated Bills	.....
.....	Halves	.....
.....	Quarters	.....
.....	Dimes	.....
.....	Nickels	.....
.....	Pennies	.....
\$.....	TOTAL	\$.....

Received from..... Total Cash & Cash Items as described.

Name of Examiner

Date.....

Teller's Signature

INSTRUCTIONS:

- Have teller balance cash and prepare teller's balance sheet in your presence.
- Initial all general ledger tickets and have forwarded to the general bookkeeper for posting.
- Verify all cash, including teller's vault cash by recounting, in the presence of the teller, and after returning to him obtain receipt. (Test check packages, weigh or count loose coin per instructions of examiner in charge.)
- Prepare schedule of cash items in detail.

EXHIBIT 26

[illegible][illegible]

NAME		ADDRESS		LOAN DATED	LOAN DUE	AMOUNT	CONFIRMED
COLLATERAL				CHECKED			
White, John		62 San Francisco St		1-10-53	6-10-53	2,000.-	
Guaranty signed -- S. Rose		4,000.-					
Smith P.		1114 Macy		3-16-53	6-16-53	500.-	

When confirming loans, it is not necessary to pre-run the notes or ledgers.

Each loan should be listed on the tally sheets from the notes. Any employee can do this provided that when all notes are listed, a member of the audit staff will call back the last name and amount on the note with the name and amount as shown on the tally sheet. Confirmation letter will show date of note, amount and due date in space provided.

When all notes have been listed by name and amount, date and maturity on the tally sheets, the balances, as shown on the tally sheets, should be run and the total reconciled with the liability ledger total and with the general ledger control figure.

As tally sheets are completed, bank employees can fill in the confirmation letters as to name, address, date of note, amount, due date in the space provided—from the note. When completed, letters should be given to a member of the audit staff for custody. When all letters are filled out, members of the audit staff should check back the amount and name on the letters with the amount and name shown on the tally sheet.

Once the letters have been checked out on the tally sheets and balances in total have been reconciled with the control figures, the letters should never get out of the possession or control of the auditor until they are folded, inserted in the envelope together with return envelope, stamped and deposited in the post office.

As confirmation letters are received, they are sorted by number or alphabetically, as the case may be, and checked off the tally sheet with a dater, and filed in numerical or alphabetical order.

ALL DIFFERENCES MUST BE RECONCILED OR ADJUSTED AND PROPER NOTATION MADE IN THE REPORT.

BANK AUDITING

EXHIBIT 28

ACCOUNTS OVERDRAWN AS OF

[illegible]

EXHIBIT 29

(Class).....LOANS PAST DUE AS OF

[illegible]

SCHEDULE OF (TYPE OR CLASS) INVESTMENTS AS OF

[illegible]

BANK AUDITING

EXHIBIT 31

TRANSCRIPT OF.....ACCOUNT

Date	Detail	Debit	Credit	Balance
2025-01-01				
2025-01-02				
2025-01-03				
2025-01-04				
2025-01-05				
2025-01-06				
2025-01-07				
2025-01-08				
2025-01-09				
2025-01-10				
2025-01-11				
2025-01-12				
2025-01-13				
2025-01-14				
2025-01-15				
2025-01-16				
2025-01-17				
2025-01-18				
2025-01-19				
2025-01-20				
2025-01-21				
2025-01-22				
2025-01-23				
2025-01-24				
2025-01-25				
2025-01-26				
2025-01-27				
2025-01-28				
2025-01-29				
2025-01-30				
2025-01-31				
2025-02-01				
2025-02-02				
2025-02-03				
2025-02-04				
2025-02-05				
2025-02-06				
2025-02-07				
2025-02-08				
2025-02-09				
2025-02-10				
2025-02-11				
2025-02-12				
2025-02-13				
2025-02-14				
2025-02-15				
2025-02-16				
2025-02-17				
2025-02-18				
2025-02-19				
2025-02-20				
2025-02-21				
2025-02-22				
2025-02-23				
2025-02-24				
2025-02-25				
2025-02-26				
2025-02-27				
2025-02-28				
2025-03-01				
2025-03-02				
2025-03-03				
2025-03-04				
2025-03-05				
2025-03-06				
2025-03-07				
2025-03-08				
2025-03-09				
2025-03-10				
2025-03-11				
2025-03-12				
2025-03-13				
2025-03-14				
2025-03-15				
2025-03-16				
2025-03-17				
2025-03-18				
2025-03-19				
2025-03-20				
2025-03-21				
2025-03-22				
2025-03-23				
2025-03-24				
2025-03-25				
2025-03-26				
2025-03-27				
2025-03-28				
2025-03-29				
2025-03-30				
2025-03-31				

EXHIBIT 32

PROPERTY INSPECTION REPORT

CLASS.....

[illegible]

SUMMARY OF BUDGET PROVISIONS COVERING CONSTRUCTION — REHABILITATION AS OF.

323

EXHIBIT 34

Date	Description	Debit	Credit	Balance
------	-------------	-------	--------	---------

EXHIBIT 35

Date	Payer	Detail	Amount
------	-------	--------	--------

324

EXHIBIT 36

Name of Teller Cage No.....

EXHIBIT 37

Date	Description	Office	Amount
2025-01-01	Office Supplies	Office A	100.00
2025-01-02	Travel Expenses	Office B	250.00
2025-01-03	Software Licenses	Office A	75.00
2025-01-04	Equipment Purchase	Office C	150.00
2025-01-05	Consulting Fees	Office B	300.00
2025-01-06	Marketing Campaign	Office A	200.00
2025-01-07	Legal Services	Office C	120.00
2025-01-08	IT Support	Office A	80.00
2025-01-09	Training Courses	Office B	90.00
2025-01-10	Utilities	Office C	60.00
2025-01-11	Insurance Premiums	Office A	110.00
2025-01-12	Research & Development	Office B	180.00
2025-01-13	Facilities Maintenance	Office C	70.00
2025-01-14	Professional Fees	Office A	130.00
2025-01-15	Inventory Restock	Office B	50.00
2025-01-16	Security Services	Office C	95.00
2025-01-17	Compliance Audits	Office A	160.00
2025-01-18	Public Relations	Office B	105.00
2025-01-19	Hardware Refresh	Office C	140.00
2025-01-20	Employee Salaries	Office A	220.00
2025-01-21	Client Meetings	Office B	85.00
2025-01-22	Project Management	Office C	115.00
2025-01-23	Research Grants	Office A	190.00
2025-01-24	Marketing Materials	Office B	65.00
2025-01-25	IT Infrastructure	Office C	170.00
2025-01-26	Legal Counsel	Office A	100.00
2025-01-27	Facilities Upgrade	Office B	135.00
2025-01-28	Software Updates	Office C	75.00
2025-01-29	Consulting Projects	Office A	155.00
2025-01-30	Travel Allowance	Office B	90.00
2025-01-31	Office Renovation	Office C	210.00

EXHIBIT 38

Name.....	Original Amount.....
Covering or Purpose.....	

[illegible]

SCHEDULE OF PREPAID EXPENSES AS OF

[illegible]

SCHEDULE OF INSURANCE COVERAGE AS OF

327

EXHIBIT 41

[illegible]

EXHIBIT 42

CHECKING ACCOUNT TALLY SHEET

NAME	ADDRESS	STMT	LETTER	BALANCE	CONFIRMED	REMARKS

When confirming checking accounts, it is *not necessary for the examiner to pre-run the ledgers.*

All accounts can be listed on the tally sheets from the ledger sheets. This can be done by any employee, provided that when the tally sheets are completed, a member of the audit staff calls back or checks back the names and amounts with the ledger sheets.

When all checking accounts have been listed by name and amount on the tally sheets, the balances as shown on the tally sheets should be run and the total reconciled with the general ledger control figures.

As tally sheets are completed, bank employees can fill in the confirmation letters as to name, address, amount, in the space provided, from the ledger sheet. When completed, letters should be given to a member of the audit staff for custody and checking back of the amount and name on the letter with the amount and name on the tally sheet.

Confirmation letters can also be headed up with addressograph plates.

Once the letters have been checked out on the tally sheets (which balances in total have been reconciled with the control figures) *the letters should never get out of the possession or control of the auditor until they are folded, inserted in the envelopes together with return envelopes, stamped and deposited in the post office.*

As confirmation letters are received, they are to be sorted by number or alphabetically, as the case may be, and checked off the tally sheet with a dater, and then filled in numerical or alphabetical order.

BANK AUDITING

EXHIBIT 43

SCHEDULE OF OUTSTANDING.....CHECKS AS OF

[illegible]

EXHIBIT 44

SAVINGS ACCOUNT TALLY SHEET

NUMBER	NAME	ADDRESS	LEADER	BALANCE	CONFIRMED	REMARKS

When confirming savings accounts it is not necessary to pre-run the ledgers. All accounts should be listed on the tally sheets from the ledger sheets or cards. Any employee can do this job provided that when the tally sheets are completed a member of the audit staff calls or checks back the names and amounts with the ledger cards.

When all ledger cards have been listed on the tally sheets, the balances as shown on the tally sheets should be run and the total reconciled with the general ledger control figure.

As tally sheets are completed, someone (a bank employee) can fill in the confirmation letters as to name, address and amount from the ledger cards. When completed, letters should be given to a member of the audit staff for custody. When all letters are filled out, members of the audit staff should check back the amount and name on the letter with the amount and name on the tally sheet.

Once the letters have been checked out on the tally sheets and balances in total have been reconciled with the control figures, *the letters should never get out of the possession or control of the auditor until they are folded, inserted in the envelopes together with return envelopes, stamped and deposited in the post office.*

As confirmation letters are received, they should be sorted by number or alphabetically, as the case might be, and checked off the tally sheet with a dater and filed in numerical or alphabetical order.

ALL DIFFERENCES MUST BE RECONCILED OR ADJUSTED AND A PROPER NOTATION MADE IN THE REPORT.

E X H I B I T 5

BANK AUDITING

EXHIBIT 45

SCHEDULE OF..... STOCKHOLDERS AS OF

[illegible]

EXHIBIT 46

TRANSCRIPT OF.....ACCOUNT AS OF

Date	Detail	Debit	Credit	Balance
2025-01-01	Opening Balance			10000.00
2025-01-05	Deposit		5000.00	15000.00
2025-01-10	Withdrawal	2000.00		13000.00
2025-01-15	Transfer	1000.00		12000.00
2025-01-20	Deposit		3000.00	15000.00
2025-01-25	Withdrawal	1500.00		13500.00
2025-02-01	Interest		100.00	13600.00
2025-02-05	Transfer	500.00		13100.00
2025-02-10	Deposit		2000.00	15100.00
2025-02-15	Withdrawal	1200.00		13900.00
2025-02-20	Transfer	800.00		13100.00
2025-02-25	Deposit		1500.00	14600.00
2025-03-01	Interest		50.00	14650.00
2025-03-05	Withdrawal	3000.00		11650.00
2025-03-10	Transfer	1000.00		10650.00
2025-03-15	Deposit		4000.00	14650.00
2025-03-20	Withdrawal	1800.00		12850.00
2025-03-25	Transfer	700.00		12150.00
2025-03-30	Deposit		2500.00	14650.00
2025-04-01	Interest		25.00	14675.00
2025-04-05	Withdrawal	2200.00		12475.00
2025-04-10	Transfer	900.00		11575.00
2025-04-15	Deposit		3500.00	15075.00
2025-04-20	Withdrawal	1600.00		13475.00
2025-04-25	Transfer	600.00		12875.00
2025-04-30	Deposit		1800.00	14675.00
2025-05-01	Interest		15.00	14690.00
2025-05-05	Withdrawal	2500.00		12190.00
2025-05-10	Transfer	1100.00		11090.00
2025-05-15	Deposit		4500.00	15590.00
2025-05-20	Withdrawal	2100.00		13490.00
2025-05-25	Transfer	1050.00		12440.00
2025-05-30	Deposit		3800.00	16240.00
2025-06-01	Interest		30.00	16270.00
2025-06-05	Withdrawal	2800.00		13470.00
2025-06-10	Transfer	1200.00		12270.00
2025-06-15	Deposit		5000.00	17270.00
2025-06-20	Withdrawal	2300.00		14970.00
2025-06-25	Transfer	1150.00		13820.00
2025-06-30	Deposit		4200.00	18020.00
2025-07-01	Interest		35.00	18055.00
2025-07-05	Withdrawal	3500.00		14555.00
2025-07-10	Transfer	1400.00		13155.00
2025-07-15	Deposit		6000.00	19155.00
2025-07-20	Withdrawal	2600.00		16555.00
2025-07-25	Transfer	1350.00		15205.00
2025-07-30	Deposit		5200.00	20405.00
2025-08-01	Interest		40.00	20445.00
2025-08-05	Withdrawal	4000.00		16445.00
2025-08-10	Transfer	1600.00		14845.00
2025-08-15	Deposit		7000.00	21845.00
2025-08-20	Withdrawal	2700.00		19145.00
2025-08-25	Transfer	1450.00		17695.00
2025-08-30	Deposit		5800.00	23495.00
2025-09-01	Interest		45.00	23540.00
2025-09-05	Withdrawal	4200.00		19340.00
2025-09-10	Transfer	1700.00		17640.00
2025-09-15	Deposit		7500.00	25140.00
2025-09-20	Withdrawal	2900.00		22240.00
2025-09-25	Transfer	1550.00		20690.00
2025-09-30	Deposit		6200.00	26890.00
2025-10-01	Interest		50.00	26940.00
2025-10-05	Withdrawal	4500.00		22440.00
2025-10-10	Transfer	1800.00		20640.00
2025-10-15	Deposit		8000.00	28640.00
2025-10-20	Withdrawal	3100.00		25540.00
2025-10-25	Transfer	1650.00		23890.00
2025-10-30	Deposit		6800.00	30690.00
2025-11-01	Interest		55.00	30745.00
2025-11-05	Withdrawal	4800.00		25945.00
2025-11-10	Transfer	1900.00		24045.00
2025-11-15	Deposit		8500.00	32545.00
2025-11-20	Withdrawal	3300.00		29245.00
2025-11-25	Transfer	1750.00		27495.00
2025-11-30	Deposit		7200.00	34695.00
2025-12-01	Interest		60.00	34755.00
2025-12-05	Withdrawal	5000.00		29755.00
2025-12-10	Transfer	2000.00		27755.00
2025-12-15	Deposit		9000.00	36755.00
2025-12-20	Withdrawal	3600.00		33155.00
2025-12-25	Transfer	1850.00		31305.00
2025-12-30	Deposit		7800.00	39105.00
2025-12-31	Year-End Balance			39105.00

SCHEDULE FOR VERIFICATION OF UNEARNED DISCOUNT AS OF

NOTE NUMBER	NAME	AMOUNT	DATED	DUE	DAYS TO MATURITY	INTEREST TO MATURITY
						3 1/2%
						4 1/8%
						4 1/2%
						4 3/4%
						5 1/2%
						6%

EXHIBIT 48

TRANSCRIPT OF ACCRUED.....PAYABLE FROM.....TO.....

Date	Description or Detail	Debit	Credit	Balance
2025-01-01	Opening Balance			10000.00
2025-01-05	Deposit from Client X		5000.00	15000.00
2025-01-10	Payment to Supplier Y	3000.00		12000.00
2025-01-15	Interest Income		200.00	12200.00
2025-01-20	Transfer to Savings	1000.00		11200.00
2025-01-25	Dividend Received		150.00	11350.00
2025-01-30	Loan Repayment	2500.00		8850.00
2025-02-05	Salary Payment	4000.00		4850.00
2025-02-10	Interest Expense	100.00		4750.00
2025-02-15	Deposit from Client Z		3000.00	7750.00
2025-02-20	Transfer to Checking	500.00		7250.00
2025-02-25	Dividend Received		100.00	7350.00
2025-03-01	Closing Balance			7350.00

EXHIBIT 49

TRANSCRIPT OF.....ACCOUNT FROM.....TO.....

Date	Description	Debit	Credit	Balance
2025-01-01	Opening Balance			10000.00
2025-01-05	Deposit		5000.00	15000.00
2025-01-10	Withdrawal	2000.00		13000.00
2025-01-15	Transfer	1000.00		12000.00
2025-01-20	Deposit		3000.00	15000.00
2025-01-25	Withdrawal	1500.00		13500.00
2025-02-01	Transfer	500.00		13000.00
2025-02-05	Deposit		2000.00	15000.00
2025-02-10	Withdrawal	1000.00		14000.00
2025-02-15	Transfer	300.00		13700.00
2025-02-20	Deposit		1500.00	15200.00
2025-02-25	Withdrawal	800.00		14400.00
2025-03-01	Transfer	200.00		14200.00
2025-03-05	Deposit		1000.00	15200.00
2025-03-10	Withdrawal	700.00		14500.00
2025-03-15	Transfer	100.00		14400.00
2025-03-20	Deposit		500.00	14900.00
2025-03-25	Withdrawal	600.00		14300.00
2025-03-30	Transfer	50.00		14250.00
2025-04-01	Deposit		250.00	14500.00
2025-04-05	Withdrawal	400.00		14100.00
2025-04-10	Transfer	30,000.00		14100.00

SCHEDULE OF "LIVE" CHARGED OFF ITEMS AS OF

[illegible]

BANK AUDITING

EXHIBIT 51

SCHEDULE OF OUTSTANDING ACCOUNTS PAYABLE ACCOUNT
AS OF.....

Date	Payee	Reason or Purpose	Amount
2025-01-01	ABC COMPANY	Monthly Salary	15000
2025-01-05	XYZ STORE	Office Supplies	500
2025-01-10	DEF RESTAURANT	Dinner with Client	1200
2025-01-15	GHI TRAVEL	Flight Ticket	800
2025-01-20	JKL HOTEL	Hotel Stay	300
2025-01-25	MNO INSURANCE	Monthly Premium	200
2025-02-01	PQR BANK	Monthly Savings	1000
2025-02-05	STU GYM	Monthly Membership	150
2025-02-10	VWX CAR RENT	Car Rental	400
2025-02-15	YZA TAXI	Taxi Fare	50
2025-02-20	BCD PHARMACY	Prescription Medication	80
2025-02-25	EFG GROCERIES	Weekly Groceries	300
2025-03-01	HIJ ELECTRONICS	Smartphone Purchase	1200
2025-03-05	KLM OPTIC	Glasses Repair	50
2025-03-10	NOP CAR WASH	Car Wash Service	20
2025-03-15	QRS PAINTING	House Painting	1500
2025-03-20	TUV LANDSCAPING	Lawn Maintenance	100
2025-03-25	WXY FURNITURE	Living Room Sofa	2500
2025-03-30	ZAB BOOKSTORE	Books Purchase	50
2025-04-01	ACD GARDENING	Garden Maintenance	80
2025-04-05	BEF CARPOOL	Gasoline Refill	30
2025-04-10	DGH PET STORE	Pet Food Purchase	40
2025-04-15	FHI DRY CLEAN	Dry Cleaning Service	25
2025-04-20	GJK BAKERY	Birthday Cake	60
2025-04-25	ILM JEWELRY	Jewelry Repair	100
2025-05-01	KNP CARPENTER	Furniture Repair	120
2025-05-05	LOQ ELECTRICIAN	Electrical Work	180
2025-05-10	PMR PLUMBER	Plumbing Service	90
2025-05-15	QRS PAINTER	Wall Painting	110
2025-05-20	STU LANDSCAPER	Tree Trimming	70
2025-05-25	VWX FURNITURE	Dining Table	350
2025-06-01	YZA BOOKSTORE	Children's Books	30
2025-06-05	BCD GARDENING	Planting Service	60
2025-06-10	DEF CARPOOL	Gasoline Refill	35
2025-06-15	GHI PET STORE	Pet Supplies	45
2025-06-20	JKL DRY CLEAN	Business Suits	30
2025-06-25	MNO BAKERY	Wedding Cakes	150
2025-07-01	PQR JEWELRY	Engagement Ring	200
2025-07-05	STU CARPENTER	Shed Construction	800
2025-07-10	VWX ELECTRICIAN	Wiring Installation	220
2025-07-15	YZA PLUMBER	Leak Repair	110
2025-07-20	ABC PAINTER	Interior Painting	130
2025-07-25	DEF LANDSCAPER	Flower Bed Installation	90
2025-08-01	GHI FURNITURE	Bedroom Bed	400
2025-08-05	JKL BOOKSTORE	College Textbooks	70
2025-08-10	MNO GARDENING	Seasonal Cleanup	50
2025-08-15	PQR CARPOOL	Gasoline Refill	40
2025-08-20	STU PET STORE	Pet Grooming	55
2025-08-25	VWX DRY CLEAN	Winter Coats	35
2025-09-01	YZA BAKERY	Anniversary Cake	80
2025-09-05	ABC JEWELRY	Watch Repair	110
2025-09-10	DEF CARPENTER	Shed Construction	600
2025-09-15	GHI ELECTRICIAN	Outlet Installation	150
2025-09-20	JKL PLUMBER	Water Heater Replacement	250
2025-09-25	MNO PAINTER	Exterior Painting	160
2025-10-01	PQR LANDSCAPER	Spring Cleanup	75
2025-10-05	STU FURNITURE	Office Chair	180
2025-10-10	VWX BOOKSTORE	Reference Books	40
2025-10-15	YZA GARDENING	Planting Service	65
2025-10-20	ABC CARPOOL	Gasoline Refill	45
2025-10-25	DEF PET STORE	Pet Training Class	60
2025-11-01	GHI DRY CLEAN	Business Suits	40
2025-11-05	JKL BAKERY	Thanksgiving Dinner	120
2025-11-10	MNO JEWELRY	Necklace Purchase	150
2025-11-15	PQR CARPENTER	Shed Construction	800
2025-11-20	STU ELECTRICIAN	Wiring Installation	220
2025-11-25	VWX PLUMBER	Leak Repair	110
2025-12-01	YZA PAINTER	Interior Painting	130
2025-12-05	ABC LANDSCAPER	Flower Bed Installation	90
2025-12-10	DEF FURNITURE	Bedroom Bed	400
2025-12-15	GHI BOOKSTORE	College Textbooks	70
2025-12-20	JKL GARDENING	Seasonal Cleanup	50
2025-12-25	MNO CARPOOL	Gasoline Refill	40
2025-12-30	PQR PET STORE	Pet Grooming	55
2026-01-05	STU DRY CLEAN	Winter Coats	35
2026-01-10	VWX BAKERY	Anniversary Cake	80
2026-01-15	YZA JEWELRY	Watch Repair	110
2026-01-20	ABC CARPENTER	Shed Construction	600
2026-01-25	DEF ELECTRICIAN	Outlet Installation	150
2026-02-01	GHI PLUMBER	Water Heater Replacement	250
2026-02-05	JKL PAINTER	Exterior Painting	160
2026-02-10	MNO LANDSCAPER	Spring Cleanup	75
2026-02-15	PQR FURNITURE	Office Chair	180
2026-02-20	STU BOOKSTORE	Reference Books	40
2026-02-25	VWX GARDENING	Planting Service	65
2026-03-01	YZA CARPOOL	Gasoline Refill	45
2026-03-05	ABC PET STORE	Pet Training Class	60
2026-03-10	DEF DRY CLEAN	Business Suits	40
2026-03-15	GHI BAKERY	Thanksgiving Dinner	120
2026-03-20	JKL JEWELRY	Necklace Purchase	150
2026-03-25	MNO CARPENTER	Shed Construction	800
2026-04-01	PQR ELECTRICIAN	Wiring Installation	220
2026-04-05	STU PLUMBER	Leak Repair	110

EXHIBIT 52

TRANSCRIPT OF TELLERS DIFFERENCE ACCOUNT AS OF.....

[illegible]

EXHIBIT 53

Date	Description	Office	Amount
------	-------------	--------	--------

[illegible]

TRANSCRIPT OF DIVIDENDS DECLARED BUT NOT YET PAYABLE
ACCOUNT FROM _____ TO _____

Date	Detail	Debit	Credit	Balance
2025-01-01	Opening Balance			10000.00
2025-01-05	Deposit		5000.00	15000.00
2025-01-10	Withdrawal	2000.00		13000.00
2025-01-15	Deposit		3000.00	16000.00
2025-01-20	Withdrawal	1000.00		15000.00
2025-01-25	Deposit		2000.00	17000.00
2025-02-01	Withdrawal	3000.00		14000.00
2025-02-05	Deposit		4000.00	18000.00
2025-02-10	Withdrawal	1500.00		16500.00
2025-02-15	Deposit		2500.00	19000.00
2025-02-20	Withdrawal	2500.00		16500.00
2025-02-25	Deposit		3500.00	20000.00
2025-03-01	Withdrawal	4000.00		16000.00
2025-03-05	Deposit		2000.00	18000.00
2025-03-10	Withdrawal	1800.00		16200.00
2025-03-15	Deposit		3000.00	19200.00
2025-03-20	Withdrawal	2200.00		17000.00
2025-03-25	Deposit		2800.00	19800.00
2025-04-01	Withdrawal	3500.00		16300.00
2025-04-05	Deposit		4500.00	20800.00
2025-04-10	Withdrawal	2800.00		18000.00
2025-04-15	Deposit		3200.00	21200.00
2025-04-20	Withdrawal	3200.00		18000.00
2025-04-25	Deposit		4000.00	22000.00
2025-05-01	Withdrawal	4500.00		17500.00
2025-05-05	Deposit		3800.00	21300.00
2025-05-10	Withdrawal	3000.00		18300.00
2025-05-15	Deposit		2500.00	20800.00
2025-05-20	Withdrawal	2000.00		18800.00
2025-05-25	Deposit		3500.00	22300.00
2025-06-01	Withdrawal	3800.00		18500.00
2025-06-05	Deposit		4200.00	22700.00
2025-06-10	Withdrawal	2500.00		20200.00
2025-06-15	Deposit		3000.00	23200.00
2025-06-20	Withdrawal	3500.00		19700.00
2025-06-25	Deposit		4800.00	24500.00
2025-07-01	Withdrawal	4200.00		20300.00
2025-07-05	Deposit		3500.00	23800.00
2025-07-10	Withdrawal	2800.00		21000.00
2025-07-15	Deposit		2200.00	23200.00
2025-07-20	Withdrawal	3000.00		20200.00
2025-07-25	Deposit		4000.00	24200.00
2025-08-01	Withdrawal	4000.00		20200.00
2025-08-05	Deposit		3000.00	23200.00
2025-08-10	Withdrawal	2500.00		20700.00
2025-08-15	Deposit		2800.00	23500.00
2025-08-20	Withdrawal	3200.00		20300.00
2025-08-25	Deposit		4500.00	24800.00
2025-09-01	Withdrawal	3500.00		21300.00
2025-09-05	Deposit		3800.00	25100.00
2025-09-10	Withdrawal	2800.00		22300.00
2025-09-15	Deposit		2500.00	24800.00
2025-09-20	Withdrawal	3000.00		21800.00
2025-09-25	Deposit		4200.00	26000.00
2025-10-01	Withdrawal	4500.00		21500.00
2025-10-05	Deposit		3500.00	25000.00
2025-10-10	Withdrawal	2800.00		22200.00
2025-10-15	Deposit		2200.00	24400.00
2025-10-20	Withdrawal	3000.00		21400.00
2025-10-25	Deposit		4000.00	25400.00
2025-11-01	Withdrawal	4000.00		21400.00
2025-11-05	Deposit		3000.00	24400.00
2025-11-10	Withdrawal	2500.00		21900.00
2025-11-15	Deposit		2800.00	24700.00
2025-11-20	Withdrawal	3200.00		21500.00
2025-11-25	Deposit		4500.00	26000.00
2025-12-01	Withdrawal	3500.00		22500.00
2025-12-05	Deposit		3800.00	26300.00
2025-12-10	Withdrawal	2800.00		23500.00
2025-12-15	Deposit		2500.00	26000.00
2025-12-20	Withdrawal	3000.00		23000.00
2025-12-25	Deposit		4200.00	27200.00
2025-12-31	Year End Balance			27200.00

BANK AUDITING

EXHIBIT 55

TRANSCRIPT REDISCOUNTS ACCOUNT FROM..... TO.....

[illegible]

EXHIBIT 56

A TRANSCRIPT OF ACCEPTANCES EXECUTED ACCOUNT

FROM.....TO.....

[illegible]

E X H I B I T S

EXHIBIT 57

**TRANSCRIPT OF ADVANCES SECURED BY PLEDGE OF
SECURITIES ACCOUNT FROM.....TO.....**

[illegible]

EXHIBIT 58

SCHEDULE OF SUNDRY LIABILITIES ACCOUNT AS OF

[illegible]

BANK AUDITING

EXHIBIT 59

TRUST DEPARTMENT STATEMENT OF CONDITION

RESOURCES

Cash on hand	T-1	.....
On Deposit—Commercial Department	T-3	.....
On Deposit—Savings Department	T-7	.....
U. S. Government Securities	T-11	.....
Other Bonds and Securities	T-15	.....
Real Estate Mortgages	T-21	.....
Stocks	T-25	.....
Real Estate	T-31	.....
Other Assets	T-35	.....
Accounts Receivable	T-41	.....
Sundry Resources	T-45	.....
Total Resources		.....

LIABILITIES

Executor or Administrator	T-2	.....
Trustee Under Will	T-6	.....
Trustee Under Agreement	T-10	.....
Guardianships	T-14	.....
Agencies	T-18	.....
Escrows	T-22	.....
Trustee Under Corporate Indenture	T-26	.....
Paying Agent Under Corporate Indenture	T-30	.....
Transfer Agent Under Corporate Indenture	T-34	.....
Dividend Disb. Agent Under Corp. Indenture	T-38	.....
Registrar Under Corporate Indenture	T-42	.....
Sundry Liabilities	T-46	.....
Total Liabilities		.....

EXHIBIT 60

EXHIBITS

[illegible]

BANK AUDITING

EXHIBIT 61

CONVERSION OF FOREIGN EXCHANGE AS OF

Country	Media	Quantity Volume	Book Price	Value Total	Market Price	Value Total	Differ- ential
United States	Print	1000000	10.00	10000000	12.00	12000000	2000000
United States	Digital	5000000	2.00	10000000	1.50	7500000	2500000
United States	Hybrid	2000000	5.00	10000000	4.00	8000000	2000000
United Kingdom	Print	800000	12.00	9600000	14.00	11200000	1600000
United Kingdom	Digital	4000000	2.50	10000000	1.80	7200000	2800000
United Kingdom	Hybrid	1500000	6.00	9000000	4.50	6750000	2250000
Germany	Print	700000	15.00	10500000	18.00	12600000	2100000
Germany	Digital	3500000	3.00	10500000	2.20	7700000	2800000
Germany	Hybrid	1200000	7.00	8400000	5.00	6000000	2400000
France	Print	600000	18.00	10800000	21.00	12600000	1800000
France	Digital	3000000	3.50	10500000	2.50	7500000	3000000
France	Hybrid	1000000	8.00	8000000	5.50	5500000	2500000
Italy	Print	500000	20.00	10000000	24.00	12000000	2000000
Italy	Digital	2500000	4.00	10000000	3.00	7500000	2500000
Italy	Hybrid	800000	9.00	7200000	6.00	4800000	2400000
Spain	Print	400000	25.00	10000000	30.00	12000000	2000000
Spain	Digital	2000000	5.00	10000000	3.50	7000000	3000000
Spain	Hybrid	600000	10.00	6000000	7.00	4200000	1800000
Japan	Print	300000	30.00	9000000	36.00	10800000	1800000
Japan	Digital	1500000	6.00	9000000	4.00	6000000	3000000
Japan	Hybrid	500000	12.00	6000000	8.00	4000000	2000000
China	Print	200000	40.00	8000000	48.00	9600000	1600000
China	Digital	1000000	8.00	8000000	5.00	5000000	3000000
China	Hybrid	400000	15.00	6000000	10.00	4000000	2000000
India	Print	150000	50.00	7500000	60.00	9000000	1500000
India	Digital	750000	10.00	7500000	6.00	4500000	3000000
India	Hybrid	300000	18.00	5400000	12.00	3600000	1800000
Brazil	Print	100000	60.00	6000000	72.00	7200000	1200000
Brazil	Digital	500000	12.00	6000000	7.00	3500000	2500000
Brazil	Hybrid	200000	20.00	4000000	14.00	2800000	1200000
Australia	Print	80000	70.00	5600000	84.00	6720000	1120000
Australia	Digital	400000	14.00	5600000	8.00	3200000	2400000
Australia	Hybrid	150000	22.00	3300000	16.00	2400000	900000
Canada	Print	70000	80.00	5600000	96.00	6720000	1120000
Canada	Digital	350000	16.00	5600000	9.00	3150000	2450000
Canada	Hybrid	120000	24.00	2880000	18.00	2160000	720000
South Korea	Print	60000	90.00	5400000	108.00	6480000	1080000
South Korea	Digital	300000	18.00	5400000	10.00	3000000	2400000
South Korea	Hybrid	100000	26.00	2600000	20.00	2000000	600000
Sweden	Print	50000	100.00	5000000	120.00	6000000	1000000
Sweden	Digital	250000	20.00	5000000	11.00	2750000	2250000
Sweden	Hybrid	80000	28.00	2240000	22.00	1760000	480000
Norway	Print	40000	110.00	4400000	132.00	5280000	880000
Norway	Digital	200000	22.00	4400000	12.00	2400000	2000000
Norway	Hybrid	70000	30.00	2100000	24.00	1680000	420000
Denmark	Print	30000	120.00	3600000	144.00	4320000	720000
Denmark	Digital	150000	24.00	3600000	13.00	1950000	1650000
Denmark	Hybrid	60000	32.00	1920000	26.00	1560000	360000
Finland	Print						

[illegible]

SCHEDULE OF OPEN INCOMING COLLECTION ITEMS AS OF:

[illegible]

SCHEDULE OF OPEN OUTGOING COLLECTION ITEMS AS OF:

345

SCHEDULE OF ORDERS FOR THE SALE OF SECURITIES FOR CUSTOMERS OPEN AND UNEXECUTED AS OF

[illegible]

SCHEDULE OF ORDERS FOR THE PURCHASE OF SECURITIES FOR CUSTOMERS OPEN AND UNEXECUTED AS OF: ...

[illegible]

BANK AUDITING

EXHIBIT 67

SCHEDULE OF DELINQUENT SAFE DEPOSIT BOX RENTALS AS OF

[illegible]

SCHEDULE OF OPEN SAFE KEEPING ITEMS AS OF

[illegible]

EXHIBIT 69

Suggested form of letter to be used by Directors Examining Committee in confirming safe keeping accounts. Letter is set up for use with window envelope.

(Name of Bank)

(Bank's own letterhead can be used)

.....(Date).....

.....(Name).....

.....(Address).....

.....(Town)

Dear Customer:

In accordance with the banking laws of the State of.....(Name).... the directors are undertaking their customary examination. To assist us in making this examination, will you please verify the correctness of your safe keeping account, as shown below in the space provided, and return to us in the enclosed postage prepaid envelope. Should the record of items held for your account differ with your records, please inform us fully of the difference.

The records of the bank indicate that as of the close of business (Date), the following items were held in your name in safe keeping under the receipts as numbered.

RECEIPT NUMBER	DATED	DESCRIPTION OF ITEM HELD
----------------	-------	--------------------------

We appreciate your cooperation.

Very truly yours,

(Facsimile signature)

For the Directors Examining Committee

To Directors Examining Committee

(Name of Bank)

(Address of Bank)

Gentlemen:

The statement of my safe keeping account, covered by receipts No..... as of the close of business (Date) is correct.

Signature should be authorized and on file with the bank.

.....
Signature

EXHIBIT 70

Denomination	Numbers		No. of Units	Value
	From.....	To.....		
	In Cage			

[illegible][illegible]

BANK AUDITING

EXHIBIT 71

**SCHEDULE OF UNITED STATES SAVINGS BONDS UNISSUED
AS OF**

[illegible]

EXHIBIT 72

Denomi- nation	Numbers From.....To.....	Units	Sale Price	Unit Maturity Value	Maturity Value
-------------------	-----------------------------	-------	---------------	---------------------------	-------------------

[illegible]

SCHEDULE OF OBLIGATIONS OF OFFICERS AND EMPLOYEES TO THE BANK AS OF

[illegible]

EXHIBIT 74

FUNCTIONS OF COMMITTEE

[illegible]This image shows a single sheet of cream-colored paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins or other markings on the paper.



Index

—A—

Acceptance Account, Transcript Form, Exhibit 56	338
Acceptances, Audit Procedure and Questionnaire	88, 186
Acceptances, Description of	88, 186
Accounting Department, Audit of	223
Accounting Department, Audit Procedure and Questionnaire	224
Accounting Department, Description of	223
Accounts Closed, Report Form, Exhibit 7	291
Accounts Closed, Report of	23
Accounts, Confirmation of by Directors	30
Accounts Opened, Report Form, Exhibit 6	290
Accounts Opened, Report of	23
Accounts Payable, Audit Procedure and Questionnaire	186
Accounts Payable Accounts, Descriptions of	184
Accounts Payable Accounts, Transcript Form, Exhibit 51	336
Accounts Receivable Accounts, Audit Procedure and Questionnaire.....	122
Accounts Receivable Accounts, Description of	121
Accounts Receivable Accounts, Transcript Form, Exhibit 35	324
Accounts Receivable Trust Department Audit Procedure and Questionnaire	196
Accounts Receivable, Trust Department, Description of	194
Administrative Checks, Audit Procedure and Questionnaire	146
Administrative Checks, Description of	145
Administration Accounts Trust Department Audit Procedure and Questionnaire	196
Administration Accounts Trust Department, Description of	194, 195
Advances Secured by Pledge of Securities, Audit Procedure and Questionnaire	186
Advances Secured by Pledge of Securities, Description of	186
Advances Secured by Pledge of Securities, Transcript Form, Exhibit 57	339
Agency Accounts, Audit Procedure and Questionnaire.....	196
Agency Accounts, Description of	194
Appliance Installment Loans, Audit Procedure and Questionnaire.....	92
Appliance Installment Loans, Description of	87
Army Navy Air Force Funds Secured by Collateral Demand, Audit.....	
Procedure and Questionnaire	130
Army Navy Air Force Funds Secured by Collateral Demand,	
Description of	130

INDEX

Army Navy Air Force Funds Secured by Collateral Time, Audit Procedure and Questionnaire	153
Army Navy Air Force Funds Secured by Collateral Time,	
Description of	153
Assets and Liabilities, Trust Schedule, Exhibit 60	344
Assets Other, Trust Accounts, Audit Procedure and Questionnaire.....	196
Assets Other, Trust Accounts, Description of	194
Assignment of Duties Under Directors Examination Program	27, 28, 29
Audit, Assignments for	253
Audit Cost, Estimating of	251
Audit, Definition of Term	37
Audit, Execution of	252
Audit Information Sheet	256
Audit Procedure	253
Audit Program, Analysis of Records	67
Audit Program, Continuous	276
Audit Program, Essentials of	44
Audit Program, Establishing Controls	244
Audit Program, Exposure Points for Control	245
Audit Program, Frequency of	279
Audit Program, Planning the	244
Audit Program, Pre-Audit Information	245
Audit Program, Prelude to	42
Audit Program, Purpose of	42
Audit Program, Review of Policies by Directors	32
Audit Program, The	72
Audit Report, Form and Manner	268
Audit Report, Outline of	275
Audit Report, Excerpts from Typical	270
Audit Report, Writing of	269
Audit Routine, Schedule	279
Audit Transmittal Letter	274
Audit Schedule	257
Audit Survey	247
Auditing, Definition of	64, 65
Auditing, Terminology Used in	64
Auditor, Functions of	269
Auditor, Other Functions of	47
Auditor, Qualifications of	45
Auditor, Responsibilities of	39
Auto Dealers, Discounts Audit Procedure and Questionnaire	88
Auto Dealers Discounts, Description of	87
Auto Dealers, Loans to, Audit Procedure and Questionnaire	88
Auto Dealers Loans to, Description of	87
Automobile Installment Loans, Audit Procedure and Questionnaire.....	92
Automobile Installment Loans, Description of	87

INDEX

-B-

Bank Examinations and Audits	25
Bank Premises, Audit Procedure and Questionnaire	102
Bank Premises, Description of	100
Banking Functions	13
Bills of Exchange, Audit Procedure and Questionnaire	88
Bills of Exchange, Description of	88
Board of Directors, Audit of	225
Board of Directors, Audit Procedure and Questionnaire	223
Board of Directors, Liabilities of	14
Board of Directors, Responsibilities of	11, 12
Board of Directors, Schedule of Obligations of	254
Bonds-Debentures, Railroad, Audit Procedure and Questionnaire.....	98
Bonds-Debentures, Railroad, Description of	97
Bonds-Debentures, Utility, Audit Procedure and Questionnaire	98
Bonds-Debentures, Utility, Description of	98
Bonds and Investments Accounts, Audit of	94
Bonds and Investments Accounts, Audit Procedures and Questionnaire....	98
Bonds and Investments, Accounts, Description of	94
Bonds-Notes-Debentures, Audit Procedure and Questionnaire	98
Bonds-Notes-Debentures, Description of	98
Bonds-Securities, Other Trust Accounts, Audit Procedure and Questionnaire	193
Bonds-Securities, Other Trust Accounts, Description of	193
Bonds, U. S. Govt. Pledged, Audit Procedure and Questionnaire	98
Bonds, U. S. Govt. Pledged, Description of	95
Bonds, U. S. Govt. Unpledged, Audit Procedure and Questionnaire.....	98
Bonds, U. S. Govt. Unpledged, Description of	95
Budget Provision Report Form, Exhibit 33	323
Burglary, Definition of	66
Buses-Cars, Account Transcript Form, Exhibit 31	322
Buses-Cars, Audit Procedure and Questionnaire	102
Buses-Cars, Description of	101
Business Reply Envelopes, Application for	41
Business Reply Envelope, Exhibit 17	301

-C-

Capital Accounts, Audit of	161
Capital Accounts, Audit Procedure and Questionnaire	163
Capital Accounts, Description of	161
Capital Accounts, Transcript Form, Exhibit 46	332
Capital Stock Common, Audit Procedure and Questionnaire	163
Capital Stock Common, Description of	161
Capital Stock Preferred, Class A. Audit Procedure and Questionnaire.....	163
Capital Stock Preferred, Class A, Description of	163
Capital Stock Preferred, Class B, Audit Procedure and Questionnaire.....	163

INDEX

Capital Stock Preferred, Class B, Description of	162
Capital Notes and Debentures, Audit Procedure and Questionnaire.....	163
Capital Notes and Debentures, Description of	162
Cash and Due From Banks Accounts, Audit of	74
Cash and Due From Banks, Audit Procedure and Questionnaire.....	77
Cash and Due From Banks, Description of	75
Cash, Audit of by Directors	29
Cash Detail Sheet, Sample of, Exhibit 25	317
Cash Item Detail Sheet, Sample of, Exhibit 26	318
Cash Items in Process of Collection, Audit Procedure and Questionnaire	77
Cash Items in Process of Collection, Description of	77
Cash Items in Transit Correspondent Banks, Audit Procedure and.....	
Questionnaire	77
Cash Items in Transit Correspondent Banks, Description of	76
Cash Items in Transit Other Banks, Audit Procedure and Questionnaire	77
Cash Items in Transit Other Banks, Description of	76
Cash Items Tellers, Description of	75
Cash Letters of Credit, Audit Procedure and Questionnaire	146
Cash Letters of Credit, Description of	146
Cash on Hand Reserve, Description of	75
Cash on Hand Tellers, Description of	75
Cash on Hand Trust Department, Audit Procedure and Questionnaire.....	196
Cash on Hand Trust Department, Description of	192
Cashiers Checks, Audit Procedure and Questionnaire	146
Cashiers Checks, Description of	145
Cashiers Department, Audit of	228
Cashiers Department, Audit Procedure and Questionnaire	228
Cashiers Department, Description of	228
Certificates of Deposit Demand, Audit Procedure and Questionnaire.....	134
Certificates of Deposit Demand, Description of	134
Certificates of Deposit Time, Audit Procedure and Questionnaire.....	158
Certificates of Deposit Time, Description of	158
Certificates of Indebtedness, U. S. Govt. Pledged, Audit Procedure and	
Questionnaire	98
Certificates of Indebtedness, U. S. Govt. Pledged, Description of	96
Certificates of Indebtedness, U. S. Govt. Unpledged, Audit Procedure	
and Questionnaire	98
Certificates of Indebtedness, U. S. Govt. Unpledged, Description of.....	96
Certified Checks, Audit Procedure and Questionnaire	146
Certified Checks, Description of	144
Changes in the Banks Investment Portfolio, Report of	19
Changes in the Banks Investment Portfolio, Exhibit 3	287
Charged Off Items, Schedule of, Exhibit 50	335
Charges and Fees, Other Income from, Audit Procedure and	
Questionnaire	179
Charges and Fees, Other Income from, Description of	178

INDEX

Charges or Losses on Accounts, Audit of	118
Charges or Losses on Accounts, Audit Procedure and Questionnaire.....	119
Charges or Losses on Accounts, Descriptions of	118
Chart of Accounts, Numerical Indexes	70
Charting of Accounts	64
Checking Accounts, Directors Examination of	29
Checking Accounts, Tally Confirmation Sheets, Exhibit 42	329
Checking Deposits Inactive, Audit Procedure and Questionnaire.....	134
Checking Deposits Inactive, Description of	133
Checking Deposits Regular, Audit Procedure and Questionnaire	134
Checking Deposits Regular, Description of	133
Checking Deposits Special, Audit Procedure and Questionnaire	134
Checking Deposits Special, Description of	133
Checks Outstanding Schedule of, Exhibit 43	330
Christmas Club Checks, Audit Procedure and Questionnaire	146
Christmas Club Checks, Description of	145
Christmas Club Deposits, Audit Procedure and Questionnaire	158
Christmas Club Deposits, Description of	157
City Deposits Secured by Collateral Demand, Audit Procedure and Questionnaire	127
City Deposits Secured by Collateral Demand, Description of	127
City Deposits Secured by Collateral Time, Audit Procedure and Questionnaire	149
City Deposits Secured by Collateral Time, Description of	149
Claims Pending, Schedule of, Exhibit 76	357
Classification of Expenses from Operations, Exhibit 23,	312
Classification of Income from Operations, Exhibit 24	71, 315
Classification of Liability Accounts, Exhibit 22	308
Classification of Resources Accounts, Exhibit 21	305
Clearing House, Examination of Banks by	37
Clearings Between District Offices, Audit Procedure and Questionnaire..	77
Clearings Between District Offices, Description of	76
Collections, Incoming, Audit of	204
Collections, Incoming, Audit Procedure and Questionnaire	205
Collections, Incoming, Description of	204
Collections, Incoming, Schedule of Open Accounts, Exhibit 63	344
Collections, Outgoing, Audit of	207
Collections, Outgoing, Audit Procedure and Questionnaire	208
Collections, Outgoing, Description of	207
Collections, Outgoing, Schedule of Open Accounts, Exhibit 64	345
Commissions, Income From, Audit Procedure and Questionnaire	179
Commissions, Income From, Description of	179
Committees, Attendance Record of, Exhibit 74	355
Committees, Audit of	230
Committees, Audit Procedure and Questionnaire	230
Committees, Description of	230

INDEX

Comparative Statement of Condition	16
Comparative Statement of Condition, Form of Exhibit 1	285
Comparative Statement of Income and Expense Exhibit 2	286
Comptroller of Currency, Examination by	36
Comptrollers Department, Audit of	232
Comptrollers Department, Audit Procedure and Questionnaire	233
Comptrollers Department, Description of	232
Comptrollers Department, Functions of	232
Confirmation Lettters Checking Accounts, Directors, Exhibit 10	294
Confirmation Letters Checking Accounts, Accountants, Exhibit 13	297
Confirmation Letters, Follow Up, Accountants Exhibit 15	299
Confirmation Letters, Follow Up, Directors, Exhibit 11	295
Confirmation Letters, Loan Accounts, Accountants, Exhibit 14	298
Confirmation Letters, Loan Accounts, Directors, Exhibit 8	292
Confirmation Letters, Savings Accounts, Accountants, Exhibit 12	296
Confirmation Letters, Savings Accounts, Directors, Exhibit 9	293
Confirmation Letters, Short Form, Accountants, Exhibit 20	304
Confirmation Letters, Short Form, Directors, Exhibit 19	303
Confirmation of Accounts by Directors	30
Confirmation of Loans by Directors	30
Construction Loans Conventional, Audit Procedure and Questionnaire....	88
Construction Loans Conventional, Description of	85
Construction Loans, F.H.A. Audit Procedure and Questionnaire	88
Construction Loans, F.H.A. Description of	85
Contingent Liability, Non General Ledger Accounts	202
Continuous Audit Program	276
Control Accounts, Non General Ledger, Audit of	202
Cost Estimates for Audit	251
County Deposits Secured by Collateral Demand, Audit Procedure and Questionnaire	127
County Deposits Secured by Collateral Demand, Description of.....	127
County Deposits Secured by Collateral Time, Audit Procedure and..... Questionnaire	149
County Deposits Secured by Collateral Time, Description of	149
County Obligations Pledged, Audit Procedure and Questionnaire	98
County Obligations Pledged, Description of	97
County Obligations Unpledged, Audit Procedure and Questionnaire	98
County Obligations Unpledged, Description of	97
Curative Auditing Procedures	67
Customers Guarantee on Established Commercial Credits, Audit Proce- dure and Questionnaire	138
Customers Guarantee on Established Commercial Credits, Description of..	138

-D-

Defalcations, Causes of	50
Defalcations, Classes of	53

INDEX

Defalcations, Definitions of	65, 66
Defalcations, Discovery of, Procedure to Follow	58
Defalcations and Public Relations	62
Demand Deposit Accounts, Regular and Special, Audit of	133
Demand Deposit Accounts, Audit Procedure and Questionnaire	134
Demand Deposit Accounts, Description of	133
Deposits Securing Liabilities, Audit of	137
Deposits Securing Liabilities, Audit Procedure and Questionnaire	138
Deposits Securing Liabilities, Description of	137
Deposits Under Special Instruction, Audit Procedure and Questionnaire	140
Deposits Under Special Instruction, Description of	139
Depreciation Accounts, Audit Procedure and Questionnaire	115
Depreciation Accounts, Description of	114
Depreciation Reserves, Audit Procedure and Questionnaire	168
Depreciation Reserves, Description of	165
Deterrents to Embezzlements	8
Directors, Audit of Board of	225
Directors, Duties of	12, 16
Directors Examining Committee	26
Directors Examination, Assignment of, Duties of	27, 28, 29
Directors Fees, Audit of	115
Directors, Handicaps of	33
Directors, Liabilities of	10, 11, 14
Directors Oath	15
Directors Reports	16
Directors Responsibilities	3, 8, 11
Directors Responsibilities, Trust Department	191
Discount Unearned, Audit Procedure and Questionnaire	171
Discount Unearned, Description of	170
Discounts, Audit Procedure and Questionnaire	88
Discounts, Description of	84
Discounts Sight Drafts in Process of Collection, Audit Procedure and Questionnaire	88
Discounts Sight Drafts in Process of Collection, Description of	85
Discovery of Defalcations, Procedure to Follow in	58
District Offices, Clearings Between, Audit Procedure and Questionnaire ..	77
District Offices, Clearings Between, Description of	76
Discovery of Embezzlements, Procedure to Follow in	58
Dividend Checks, Audit Procedure and Questionnaire	146
Dividend Checks, Description of	145
Dividends Declared But Not Yet Payable Account, Audit Procedure and Questionnaire	186
Dividends Declared But Not Yet Payable Account, Description of	185
Dividends Declared But Not Yet Payable Account, Exhibit 54	337
Dividend Disbursing Agent Under Corporate Indenture, Audit Procedure and Questionnaire	196

INDEX

Dividend Disbursing Agent Under Corporate Indenture, Description of	195
Dividends, Reserve for, Audit Procedure and Questionnaire	168
Dividends, Reserve for, Description of	166
Domestic Banks, Due From, Audit Procedure and Questionnaire	77
Domestic Banks, Description of	77
Due From Banks, Audit Procedure and Questionnaire	77
Due From Banks, Description of	75
Due From Federal Reserve Banks, Audit Procedure and Questionnaire	77
Due From Federal Reserve Banks, Description of	77
Due to Bank Accounts, Audit of	141
Due to Banks, Audit Procedure and Questionnaire	142
Due to Banks, Description of	141
Due to Local Banks for Return Items, Audit Procedure and Questionnaire	146
Due to Local Banks for Return Items, Description of	145
Duties of Directors	12

-E-

Embezzlements, Causes of	50
Embezzlements, Classes of	53
Embezzlements, Definition of	65, 66
Embezzlements, Discovery of, Procedure to Follow	58
Embezzlements and Public Relations	62
Embezzlers	7
Embezzlers, Classification of	48
Envelope for Confirmation Letter, Exhibit 16	300
Envelope for Use of Confirmation Letter	41
Equipment Account, Transcript Form, Exhibit 31	322
Equipment, Bank Premises, Audit Procedure and Questionnaire	102
Equipment, Bank Premises, Description of	101
Escrow Accounts, Audit Procedure and Questionnaire	196
Escrow Accounts, Description of	195
Escrow and Fiduciary Deposit Accounts, Audit of	139
Escrow and Fiduciary Deposit Accounts, Audit Procedure and Questionnaire	140
Escrow and Fiduciary Deposit Accounts, Description of	139
Escrow Funds for Principal, Interest, F.H.A. and Veterans Loans Audit Procedure and Questionnaire	140
Escrow Funds for Principal, Interest F.H.A. and Veterans Loans Description of	140
Escrow Funds for Taxes, Insurance F.H.A. and Veterans Loans Audit Procedure and Questionnaire	140
Escrow Funds for Taxes, Insurance F.H.A. and Veterans Loans Description	140
Examination by Clearing House, Scope of Service	37
Examination by Comptrollers Office, Scope of Service	36, 38

INDEX

Examination by State Banking Department, Scope of Service	36, 38
Examination, Definition of	37, 64, 65
Examination Plan, Directors	27
Exchange Charges, Income From, Audit Procedure and Questionnaire.....	179
Exchange Charges, Income From, Description of	179
Exchanges for Clearings, Audit Procedure and Questionnaire	77
Exchanges for Clearings, Description of	76
Executing the Audit	252
Executor Accounts Trust Department, Audit Procedure and Question- naire	196
Executor Accounts Trust Department, Description of	194
Expense Category	112
Expense Checks, Audit Procedure and Questionnaire	146
Expense Checks, Description of	145
Expense Subsidiary Accounts	109
Expense, Verification by Directors	31
Expense Accrued and Unpaid Account, Audit of	173
Expense Accrued and Unpaid Account, Audit Procedure and Question- naire	174
Expense Accrued and Unpaid Account, Description of	173
Expenses, Comparative Statement of, Exhibit 2	286
Expenses From Operations Account, Audit of	109
Expenses From Operations, Audit Procedure and Questionnaire	113
Expenses From Operations, Classifications of	71
Expenses From Operations Account, Description of	112
Expenses Payable Accrued, Audit Procedure and Questionnaire	174
Expenses Payable Accrued, Description of	174
Expenses Prepaid Account, Audit Procedure and Questionnaire	122
Expenses Prepaid Account, Description of	122

-F-

Farm and Agricultural Loans, Audit Procedure and Questionnaire.....	88
Farm and Agricultural Loans, Description of	84
Fear of Installing an Audit System	6, 7
Federal Reserve Bank Stock, Audit Procedure and Questionnaire.....	98
Federal Reserve Bank Stock, Description of	97
Fees Paid Directors and Committees, Audit Procedure and Question- naire	115
Fees Paid Directors and Committees, Description of	115
F.H.A. Income Unearned, Audit Procedure and Questionnaire	170
F.H.A. Income Unearned, Description of	170
F.H.A. Loans Offered For Sale, Audit Procedure and Questionnaire	88
F.H.A. Loans Offered For Sale, Description of	86
F.H.A. Title I Loans, Audit Procedure and Questionnaire	88
F.H.A. Title I Loans, Description of	86
F.H.A. Title II Loans, Audit Procedure and Questionnaire	88

INDEX

F.H.A. Title II Loans, Description of	85
F.H.A. Title VI Loans, Audit Procedure and Questionnaire	88
F.H.A. Title VI Loans, Description of	86
Financial Reports, Borrowing Customers	21, 22
Fixtures-Equipment Leasehold Improvement, Audit Procedure and Questionnaire	102
Fixtures-Equipment Leasehold Improvement, Description of	102
Floor Plan Layout, Audit Survey	249
Foreign Banks, Due From, Audit Procedure and Questionnaire	77
Foreign Banks, Due From, Description of	77
Foreign Department, Audit of	199
Foreign Department, Audit Procedure and Questionnaire	201
Foreign Department, Description of	199
Foreign Exchange Accounts, Transcript Form, Exhibit 62	343
Foreign Exchange Accounts, Conversion Schedule, Exhibit 61	342
Functions of Banks	13
Funds on Deposit in Commercial Department, Trust Audit Procedure and Questionnaire	196
Funds on Deposit in Commercial Department, Trust, Description of.....	193
Funds on Deposit in Savings Department, Trust, Audit Procedure and Questionnaire	196
Funds on Deposit in Savings Department, Description of	193
Furniture-Fixtures Account, Audit Procedure and Questionnaire	102
Furniture-Fixtures Account, Description of	101
Furniture-Fixtures Accounts, Transcript Form, Exhibit 31	322

-G-

Government Obligations, Other, Audit Procedure and Questionnaire.....	98
Government Obligations, Other, Description of	96
Guardianship Accounts, Audit Procedure and Questionnaire	196
Guardianship Accounts, Description of	194

-H-

Hold Over Credits, Audit Procedure and Questionnaire	186
Hold Over Credits, Description of	185
Hold Over Credits Account, Transcript Form, Exhibit 53	337
Hold Over Debits, Audit Procedure and Questionnaire	122
Hold Over Debits, Description of	122

-I-

Importance of Outside Audits	35, 36
Inactive Checking Accounts, Audit Procedure and Questionnaire	134
Inactive Checking Accounts, Description of	133
Inactive Savings Accounts, Audit Procedure and Questionnaire	158
Inactive Savings Accounts, Description of	157
Income Accounts, Classification of	176
Income Accruals	177

INDEX

Income and Expense, Reporting of	18
Income, Cash	177
Income Classification Detail, Exhibit 24	315
Income, Close out Periods of	176
Income Collected But Unearned Account, Audit of	170
Income Collected But Unearned, Audit Procedure and Questionnaire.....	171
Income Collected But Unearned Account, Description of	170
Income, Comparative Statement of, Exhibit 2	286
Income Earned But Not Collected Account, Audit of	105
Income Earned But Not Collected, Audit Procedure and Questionnaire.....	106
Income Earned But Not Collected Account, Description of	106
Income From Operations Accounts, Audit of	176
Income from Operations Accounts, Audit Procedure and Questionnaire.....	179
Income from Operations Accounts, Description of	176
Income From Operations, Classification of	71
Income Tax, Reserve For, Audit Procedure and Questionnaire	168
Income Tax, Reserve For, Description of	166
Income, Verification of by Directors	31
Information Sheet for Audit	256
Inland Banks, Foreign Department	199
Installment Loans, Appliance, Audit Procedure and Questionnaire.....	92
Installment Loans, Appliance, Description of	87
Installment Loans, Audit Procedure and Questionnaire	92
Installment Loans, Automobile, Description of	87
Installment Loans, Automobile, Audit Procedure and Questionnaire.....	92
Installment Loans, Personal, Audit Procedure and Questionnaire.....	92
Installment Loans, Personal, Description of	87
Installment Payments, Auto Dealers, Audit Procedure and Questionnaire.....	138
Installment Payments, Auto Dealers, Description of	138
Insurance Coverage Schedule, Exhibit 40	327
Insurance, Reserve For, Audit Procedure and Questionnaire	168
Insurance Reserve For, Description of	167
Interest and Discount on Borrowed Money, Audit Procedure and Questionnaire	115
Interest and Discount on Borrowed Money, Description of	114
Interest Earned or Accrued But Not Collected, Audit Procedure and Questionnaire	106
Interest Earned or Accrued But Not Collected, Description of	106
Interest Earned Investments, Audit Procedure and Questionnaire.....	179
Interest Earned Investments, Description of	178
Interest Earned Loans and Discounts, Audit Procedure and Questionnaire	179
Interest Earned Loans and Discounts, Description of	178
Interest Earned But Not Collected, Audit Procedure and Questionnaire.....	106
Interest Earned But Not Collected, Description of	106
Interest Paid on Deposit Accounts, Audit Procedure and Questionnaire.....	115

INDEX

Interest Paid on Deposit Accounts, Description of	114
Interest Payable, Accrued, Audit Procedure and Questionnaire	174
Interest Payable, Accrued, Description of	174
Interest Receivable Accrued, Audit Procedure and Questionnaire	106
Interest Receivable Accrued, Description of	105
Interest, Reserve For, Audit Procedure and Questionnaire	168
Interest, Reserve For, Description of	166
Internal Control Program, Proofs and Balances For	56
Internal Controls, Purposes of	54
Internal Controls, Rules and Regulations For	54
Introduction	1
Investment Account, Audit of	94
Investment Account, Audit Procedure and Questionnaire	98
Investment Account, Description of	94
Investment Portfolio, Changes in	19
Investments, Schedule of, Exhibit 30	321

-L-

Larceny, Definition of	66
Leasehold Improvement Account, Transcript Form, Exhibit 31	322
Letters of Credit, Customers Liability Under, Audit Procedure and Questionnaire	122
Letters of Credit, Customers Liability Under, Description of	122
Letters of Credit Outstanding, Audit Procedure and Questionnaire.....	186
Letters of Credit Outstanding, Description of	185
Letters of Credit Outstanding, Transcript Form, Exhibit 38	326
Letters of Credit, Payments Against, Audit Procedure and Question- naire	88
Letters of Credit, Payments Against, Description of	88
Liabilities and Assets, Trust Schedule of, Exhibit 60	341
Liabilities of Directors	10, 11, 14
Liabilities, Other, Audit of	184
Liabilities, Other, Audit Procedure and Questionnaire	186
Liabilities, Other, Description of	184
Liabilities, Sundry, Audit Procedure and Questionnaire	186
Liabilities, Sundry, Description of	186
Liabilities, Sundry Accounts, Schedule of, Exhibit 58	339
Liabilities, Sundry, Trust Department, Audit Procedure and Question- naire	196
Liabilities, Sundry, Trust Department, Description of	195
Liability Accounts, Classification of	68, 308
Lines of Credit, Review of By Directors	20, 29
Losses on Accounts, Transcript Form, Exhibit 34	324
Losses on Sale of Other Property, Audit Procedure and Questionnaire.....	119
Losses on Sale of Other Property, Description of	119
Losses on Sale of Securities, Audit Procedure and Questionnaire	119

INDEX

Losses on Sale of Securities, Description of	118
Losses on Loans Account, Audit Procedure and Questionnaire	119
Losses on Loans Account, Description of	118
Losses or Charges on Accounts, Audit of	118
Losses or Charges on Accounts, Audit Procedure and Questionnaire.....	119
Losses or Charges on Accounts, Description of	118
Losses Sundry Accounts, Audit Procedure and Questionnaire	119
Losses Sundry Accounts, Description of	118
Loan Accounts, Directors Examination of	29
Loan Report Form, Exhibit 4	288
Loan Verification Sheet, Exhibit 27	319
Loan and Discount Account, Audit of	82
Loan and Discount Account, Audit Procedure and Questionnaire.....	88
Loan and Discount Account, Description of	83
Loans, Confirmation of by Directors	30
Loans, Demand Secured by Marketable Collateral, Audit Procedure and Questionnaire	88
Loans, Demand Secured by Marketable Collateral, Description of.....	84
Loans, Demand Secured by Other Collateral, Audit Procedure and Ques- tionnaire	88
Loans, Demand Secured by Other Collateral, Description of	84
Loans, Demand Unsecured, Audit Procedure and Questionnaire	88
Loans Demand Unsecured, Description of	84
Loans Made Paid or Renewed, Reporting of	20
Loans, Time Secured Marketable Collateral, Audit Procedure and Questionnaire	88
Loans, Time Secured Marketable Collateral, Description of	83
Loans, Time Secured Other Collateral, Audit Procedure and Question- naire	88
Loans, Time Secured Other Collateral, Description of	83
Loans, Time Unsecured, Audit Procedure and Questionnaire	88
Loans, Time Unsecured, Description of	83

—M—

Machines—Equipment, Audit Procedure and Questionnaire	102
Machines—Equipment, Description of	101
Machines—Equipment Accounts Transcript Forms, Exhibit 31	322
Management, Analysis of, in Audit	33
Marginal Deposits, Audit Procedure and Questionnaire	138
Marginal Deposits, Description of	137
Misappropriating, Definition of	66
Money Orders, Audit Procedure and Questionnaire	146
Money Orders, Description of	145
Municipal Obligations Pledged, Audit Procedure and Questionnaire.....	98
Municipal Obligations Pledged, Description of	97
Municipal Obligations Unpledged, Audit Procedure and Questionnaire....	98

INDEX

Municipal Obligations Unpledged, Description of	97
Municipal Taxes, Reserve For, Audit Procedure and Questionnaire.....	168
Municipal Taxes, Reserve For, Description of	167

-N-

Non General Ledger Control Accounts, Audit of	202
Notes, U. S. Govt., Pledged Audit Procedure and Questionnaire	98
Notes, U. S. Govt., Pledged Description of	95
Notes, U. S. Govt., Unpledged, Audit Procedure and Questionnaire	98
Notes, U. S. Govt., Unpledged, Description of	95

-O-

Objections to an Audit Program	6
Obligations of Directors to the Community	9
Obligation of Directors to Other Directors	9
Official Checks, Audit of	144
Official Checks, Audit Procedure and Questionnaire	146
Official Checks, Description of	144
Operations, Analysis of in Audit	33
Operations Department, Audit of	228
Operations Department, Audit Procedure and Questionnaire	228
Operations Department, Description of	228
Operating Expenses Accounts, Other, Audit of	109
Operating Expenses, Audit Procedure and Questionnaire	115
Operating Expenses, Description of	115
Other Resources Accounts, Audit of	121
Other Resources, Audit Procedure and Questionnaire	122
Other Resources, Description of	121
Outline of Audit Report	275
Outside Accountants, Use of	34
Overdrafts, Audit of by Directors	31
Overdrafts, Audit Procedure and Questionnaire	88
Overdrafts, Description of	87
Overdrafts, Report Form of, Directors, Exhibit 5	289
Overdrafts, Report Form of in Audit, Exhibit 28	320
Overdrafts, Reporting of	23
Overtime Paid, Audit Procedure and Questionnaire	115
Overtime Paid, Description of	115

-P-

Past Due Loan Report Form, Exhibit 29	320
Payable Accounts, Transcript Form, Exhibit 48	334
Paying Agent Under Corporate Indenture, Audit Procedure and Questionnaire	196
Paying Agent Under Corporate Indenture, Description of	195
Payroll, Audit of by Directors	31

INDEX

Personal Installment Loans, Audit Procedure and Questionnaire	92
Personal Installment Loans, Description of	87
Personnel Department, Audit of	235
Personnel Department, Audit Procedure and Questionnaire	235
Personnel Department, Description of	235
Personnel Policies	235
Planning the Audit Program	244
Postal Savings Funds Secured by Collateral Demand, Audit Procedure and Questionnaire	130
Postal Savings Funds Secured by Collateral Demand, Description of	130
Postal Savings Funds Secured by Collateral Time, Audit Procedure and Questionnaire	153
Postal Savings Funds Secured by Collateral Time, Description of	153
Prelude to the Audit Program	42
Premises Account, Transcript Form, Exhibit 31	322
Premises Under Construction, Audit Procedure and Questionnaire	102
Premises Under Construction, Description of	101
Premises, Audit of	239
Premises, Audit Procedure and Questionnaire	239
Premises, Description of	239
Prepaid Expense Accounts, Audit Procedure and Questionnaire	122
Prepaid Expense Accounts, Description of	122
Prepaid Expense Accounts, Schedule Form, Exhibit 39	326
Preventative Auditing Procedures	67
Profits Accounts, Transcript Form, Exhibit 49	334
Proofs and Balances, Internal Control Program	56
Properties Account, Audit of	100
Properties Account, Audit Procedure and Questionnaire	102
Properties Account, Description of	100
Properties Inspection Repoort Form, Exhibit 32	322
Public Fund Demand Deposits Secured by Collateral, Audit Procedure and Questionnaire	127
Public Fund Demand Deposits Secured by Collateral, Description of	126
Public Fund Time Deposits Secured by Collateral, Audit Procedure and Questionnaire	149
Public Fund Time Deposits Secured by Collateral, Description of	148
Public Relations and Defalcations and Embezzlements	62

—Q—

Qualifications of Executives	5
------------------------------------	---

—R—

Railroad Bonds and Debentures, Audit Procedure and Questionnaire ...	98
Railroad Bonds and Debentures, Description of	97
Real Estate Account, Transcript Form, Exhibit 31	322

INDEX

Real Estate Mortgage Loans, Conventional, Audit Procedure and Questionnaire	88
Real Estate Mortgage Loans, Conventional, Description of	86
Real Estate, Other, Audit Procedure and Questionnaire	102
Real Estate, Other, Description of	101
Real Estate Taxes, Reserve For, Audit Procedure and Questionnaire ..	168
Real Estate Taxes, Reserve For, Description of	168
Real Estate, Trust Accounts, Audit Procedure and Questionnaire	196
Real Estate, Trust Accounts, Description of	194
Recoveries and Profits Accounts, Audit of	181
Recoveries and Profits Accounts, Audit Procedure and Questionnaire ..	182
Recoveries and Profits Accounts, Description of	181
Recoveries on Loans, Audit Procedure and Questionnaire	182
Recoveries on Loans, Description of	181
Recoveries, Sundry Audit Procedure and Questionnaire	182
Recoveries, Sundry, Description of	181
Rediscounts Account, Transcript Form, Exhibit 55	338
Rediscounts, Audit Procedure and Questionnaire	186
Rediscounts, Description of	185
Registraar Under Corporate Indenture, Audit Procedure and Questionnaire	196
Registraar Under Corporate Indenture, Description of	195
Rents Received, Income From, Audit Procedure and Questionnaire	179
Rents Received, Income From, Description of	179
Report of Accounts Opened and Closed	23
Report of Audit, Form and Manner of	268
Report of Examination	38
Report of Income and Expense	18
Report of Loans Made, Paid or Renewed	20
Reports of Overdrafts	23
Reports for Directors	16
Reserve Accounts, Audit of	165
Reserve Accounts, Audit Procedure and Questionnaire	168
Reserve Accounts, Description of	165
Reserves, Special, Audit Procedure and Questionnaire	168
Reserves, Special, Description of	168
Resources Accounts, Classification of	68, 305
Resources, Other, Audit of	121
Resources, Other, Audit Procedure and Questionnaire	122
Resources, Other Description of	121
Resources, Sundry, Trust Department, Audit Procedure and Questionnaire	196
Resources, Sundry, Trust Department, Description of	194
Responsibilities of Directors	2, 3, 4, 11
Responsibility of Directors, Trust Department	191

INDEX

Return Envelope for Confirmation Letters, Exhibit 17	301
Review of Policies in Audit by Directors	32
Rules-Regulations, Internal Control Program	54

-S-

Safe Keeping Accounts, Audit of	216
Safe Keeping Accounts, Audit Procedure and Questionnaire	217
Safe Keeping Accounts, Confirmation Letters, Exhibit 69	350
Safe Keeping Accounts, Description of	216
Safe Keeping Accounts, Schedule of, Exhibit 68	349
Safe Deposit Box Rental Income, Audit Procedure and Questionnaire ..	179
Safe Deposit Department, Audit of	213
Safe Deposit Department, Audit Procedure and Questionnaire	214
Safe Deposit Department, Description of	213
Safe Deposit Department, Schedule of Delinquent Rentals, Exhibit 67 ..	348
Salaries Paid Account, Audit Procedure and Questionnaire	115
Salaries Paid Account, Description of	115
Sale Other Property, Losses on, Audit Procedure and Questionnaire	119
Sale Other Property, Losses on, Description of	119
Sale Other Property, Profits From, Audit Procedure and Questionnaire ..	182
Sale Other Property, Profits From, Description of	182
Sale of Securities, Losses on, Audit Procedure and Questionnaire	119
Sale of Securities, Losses on, Description of	119
Sale of Securities, Profits From, Audit Procedure and Questionnaire	182
Sale of Securities, Profits From, Description of	181
Savings Accounts, Tally Confirmation Sheets, Exhibit 44	331
Savings Deposits, Audit Procedure and Questionnaire	158
Savings Deposits, Description of	156
Savings Deposits, Personal Loans, Audit Procedure and Questionnaire ..	158
Savings Deposits, Personal Loans, Description of	157
Seaboard Banks, Foreign Department Operations	199
Securities for Customers, Purchase and Sale of, Audit of	210
Securities for Customers, Purchase and Sale of, Audit Procedure and Questionnaire	210
Securities for Customers, Purchase and Sale of, Description of	210
Securities for Customers, Purchase and Sale of, Schedule of, Ex- hibit, 65-66	346, 347
Service Charges and Fees on Loans, Audit, Procedure and Question- naire	179
Service Charges and Fees on Loans, Description of	178
Service Charge Income Checking Accounts, Audit Procedure and Questionnaire	179
Service Charge Income Checking Accounts, Description of	178
Service Fee Income Unearned, Audit Procedure and Questionnaire	171
Service Fee Income Unearned, Description of	170

INDEX

State Banking Department, Examination by	36
State Deposits Secured by Collateral Demand, Audit Procedure and Questionnaire	127
State Deposits Secured by Collateral Demand, Description of	126
State Deposits Secured by Collateral Time, Audit Procedure and Questionnaire	149
State Deposits Secured by Collateral Time, Description of	148
State Obligations Pledged, Audit Procedure and Questionnaire	98
State Obligations Pledged, Description of	96
State Obligations Unpledged, Audit Procedure and Questionnaire	98
State Obligations Unpledged, Description of	96
Statement of Condition	16
Stationery and Supplies, Audit of	241
Stationery and Supplies, Audit Procedure and Questionnaire	241
Stationery and Supplies, Description of	241
Stealing, Definition of	66
Stockholders Liability	10
Stockholders Schedule, Exhibit 45	332
Stocks, Trust Accounts, Audit Procedure and Questionnaire	196
Stocks, Trust Accounts, Description of	193
Stop Payment Orders Official Checks, Schedule of, Exhibit 75	356
Sundry Resources Accounts, Audit Procedure and Questionnaire	122
Sundry Resources Accounts, Description of	122
Sundry Resources Accounts, Schedule of, Exhibit 41	328
Surplus Account, Audit Procedure and Questionnaire	163
Surplus Account, Description of	162

-T-

Taxes Paid Account, Audit Procedure and Questionnaire	115
Taxes Paid Account, Description of	114
Taxes Payable Accrued, Audit Procedure and Questionnaire	174
Taxes Payable Accrued, Description of	174
Tellers Cash Recapitulation Sheet, Exhibit 26A	318
Tellers Difference Overages, Audit Procedure and Questionnaire	186
Tellers Difference Overages, Description of	184
Tellers Difference Account, Schedule of, Exhibit 52	336
Tellers Difference Shortages, Audit Procedure and Questionnaire	122
Tellers Difference Shortages, Description of	121
Tellers Difference Account, Transcript Form, Exhibit 36	325
Terminology Used in Bank Auditing	64
Time Deposits Open Accounts, Audit Procedure and Questionnaire	158
Time Deposits Open Accounts, Description of	157
Time Deposits, Regular and Special, Audit of	156
Time Deposits, Regular and Special, Audit Procedure and Question- naire	158

INDEX

Time Deposits, Regular and Special, Description of	156
Transfer Agency Under Corporate Indenture, Audit Procedure and Questionnaire	196
Transfer Agency Under Corporate Indenture, Description of	195
Transmittal Letter, Audit Report	274
Travellers Checks, Audit of	219
Travellers Checks, Audit Procedure and Questionnaire	220
Travellers Checks, Description of	219
Travellers Checks, Schedule, Exhibit 70	351
Treasury Bills, U. S. Govt., Audit Procedure and Questionnaire	98
Treasury Bills, U. S. Govt., Description of	96
Trust Accounts, Purpose of Creating	190
Trust Department, Audit of	190
Trust Department, Audit Procedure and Questionnaire	196
Trust Department Chart of Accounts, Exhibit 59	340
Trust Department Corporate Trust Functions	190
Trust Department, Directors Responsibilities	191
Trust Department Fees, Audit Procedure and Questionnaire	179
Trust Department Fees, Description of	179
Trust Department Personal Trust Functions	190
Trust Funds in Escrow, Audit Procedure and Questionnaire	140
Trust Funds in Escrow, Description of	139
Trusts Under Agreement, Audit Procedure and Questionnaire	196
Trusts Under Agreement, Description of	194
Trusts Under Corporate Indenture, Audit Procedure and Questionnaire	196
Trusts Under Corporate Indenture, Description of	195
Trusts Under Wills, Audit Procedure and Questionnaire	196
Trusts Under Wills, Description of	194

—U—

Utility Bonds—Debentures, Audit Procedure and Questionnaire	98
Utility Bonds—Debentures, Description of	97
Unclaimed Balances, Audit Procedure and Questionnaire	158
Unclaimed Balances, Description of	157
Undisbursed Loans and Related Deposit Accounts, Audit Procedure and Questionnaire	138
Undisbursed Loans and Related Deposit Accounts, Description of	137
Undivided Profits Account, Audit Procedure and Questionnaire	163
Undivided Profits Account, Description of	162
U. S. Govt. Demand Deposits Secured by Collateral, Audit Procedure and Questionnaire	130
U. S. Govt. Demand Deposits Secured by Collateral, Description of	129
U. S. Govt. Securities in Trust Accounts, Audit Procedure and Ques- tionnaire	196

INDEX

U. S. Govt. Securities in Trust Accounts, Description of	193
U. S. Govt. Time Deposits Secured by Collateral, Audit Procedure and Questionnaire	153
U. S. Govt. Time Deposits Secured by Collateral, Description of	152
U. S. Savings Bonds, Audit Procedure and Questionnaire	222
U. S. Savings Bonds, Description of	221
U. S. Savings Bonds, Schedule of, Exhibit 71	352
U. S. Savings Bonds Unreported Sales, Schedule of, Exhibit 72	353
U. S. Treasury General Account Secured by Collateral, Demand, Audit Procedure and Questionnaire	130
U. S. Treasury General Account Secured by Collateral, Demand, Des- cription of	129
U. S. Treasury General Account Secured by Collateral, Time, Audit Procedure and Questionnaire	152
U. S. Treasury General Account Secured by Collateral, Time, Des- cription of	152
U. S. Treasury Tax and Loan Account Secured by Collateral, Demand, Audit Procedure and Questionnaire	130
U. S. Treasury Tax and Loan Account Secured by Collateral, Demand, Description of	130
U. S. Treasury Tax and Loan Account Secured by Collateral, Time, Audit Procedure and Questionnaire	153
U. S. Treasury Tax and Loan Account Secured by Collateral, Time, Description of	153

-V-

Verification of Signatures	32
Verification Schedule, Accounts and Loans, Exhibit 18	302
Verification Schedule Unearned Discount, Exhibit 47	333
Veterans Loans, Audit, Procedure and Questionnaire	88
Veterans Loans, Description of	86

